THE MANCHESTER SCHOOL OF ECONOMIC AND SOCIAL STUDIES

VOLUME I-II

1930–1931

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KRAUS REPRINT LTD.
Vaduz
1963

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Printed in Germany

EDITORIAL.

IT has been thought for some time that there was not only room but need for a journal devoted to the work in economics being done at Manchester. Each University develops in time a technique of thought, a method of approach, and a convention of economic understanding peculiarly its own. Everyone passing through a University assimilates to some extent its mode of thought. In Manchester this outlook has been necessarily influenced by the industrial activities congregated around us, and by the special problems with which these activities have been brought face to face.

Those people who have been so influenced constitute the Manchester School, and to focus their views and thought is the main purpose of this journal.

Many of the members of the University now engaged in industrial or commercial undertakings must necessarily have acquired considerable and important knowledge which, ordinarily, is never made public ; believing such knowledge to be valuable, we shall welcome contributions based on material of this kind. This journal is not the organ of the University staff alone, but of the body of the Manchester School as a whole.

Universities, no less than individuals, are influenced to a great extent by their environment, and the learning inculcated, though liberal in its ideals, is necessarily shaped by the endeavours of the immediate society of which it is a part. The work of Jevons[1] is illustrative, for no one more than he has applied economic doctrine to practical problems, and his endeavours have been carried on by his successors. The pursuit of economic science has progressed hand in hand with its application to industrial affairs. The object of *The Manchester School* follows on this ideal, and is confined neither to the study of pure economics nor to the consideration of realistic data, but to a harmonious combination of

1. The photograph facing page 2 is a reproduction of the bust by E. R. Mullins in the Christie Library, Manchester University.

the two. And the time for this is propitious, for economics is no longer regarded as " the dismal science," but as an art of industrial navigation. Industry and trade are beginning to take an interest in economics, just as economics is beginning to be a help to industry and trade, and it is this *rapprochement* which we wish to foster.

Economics is a developing science, and there is a necessity both for theoretical research and for practical verification and deduction. Contributions to theory and contributions to our realistic knowledge are both essential for the achievement of this aim. We have therefore an added reason for asking graduates in business to make use of these pages for the dissemination of useful and realistic data.

To those in other Universities to whom this ideal appears worthy of attainment, this journal will serve as a means of inter-collegiate communication, and as a medium for bringing to their notice the work and aims of the Victoria University of Manchester.

ECONOMIC AND COMMERCIAL STUDIES
IN THE
OWENS COLLEGE AND THE UNIVERSITY.

As is well known, the first effective step towards the foundation of a university in Manchester was taken in 1851, when the Owens College was opened. More than two centuries before, the need for a university, with its seat in Manchester, to serve the northern parts of the kingdom, had so impressed a public meeting held in the town that a petition was sent to Lord Fairfax for presentation to Parliament, but, seeing that the year was 1641, it is hardly surprising that he, though sympathetic to the petition, regarded the time as inopportune. Had the petition proceeded further it would have been interesting to see how far the subjects of study in the proposed university would have been influenced by the peculiar conditions of the North, but, for information of this character, we have to wait until nearly the end of the eighteenth century, when the question of higher education in Manchester again came to the front.

In the meantime, large changes had taken place in the area of which Manchester is the centre, and it is significant that when, in 1783, a paper was read before the Manchester Literary and Philosophical Society on "A Plan for the Improvement and Extension of Liberal Education in Manchester," whose central feature was the "connecting together of liberal science and commercial industry," the author had to recognise that his plan was new and visionary, and that he had to meet the argument "that science and business are incompatible; and that a taste for the one almost necessarily disqualifies a man from succeeding in the other." Nevertheless, the scheme was approved by the society, and, under its patronage, was offered for the consideration of the public. As yet all that was contemplated was the establishment of an educational institution intermediate between the school and the university, and the outcome was the opening in

Manchester, in 1783, of a " College of Arts and Sciences," in which lectures such as would come within the scope of the present Faculties of Arts, Science, Medicine, and Commerce, were given. Apparently this institution did not exist for long, one of the suggested causes of its decay being " a superstitious fear of the tendency of a taste for knowledge to unfit young men for ordinary business." Fortunately, opportunity for higher education did not entirely disappear from Manchester, as is evidenced by the movement which brought John Dalton to the town, and in 1829 the establishment of a university was publicly advocated. In this proposed university the subjects of study were grouped in three large divisions under the headings of Literature, Science, and Arts, insistence being laid on the value to the future merchant of a study of political economy and modern languages, which subjects were placed under the heading of Literature, political economy with history and antiquities forming the subdivision *belles lettres*. Although this proposal attracted some attention, it had no immediate practical result, but, seven years later, the advocacy of a university was revived in a paper read before the Manchester Statistical Society, and afterwards published as a pamphlet under the title, " Plan of a University for the Town of Manchester." This time sufficient interest was aroused to lead to the calling of a meeting to consider the expediency of establishing in Manchester a " College for General Education " ; but, again, although a large general committee and a sub-committee were formed, and the question of establishing an arts and a medical faculty was considered, the time was still considered inopportune. Apparently the chief importance of these early efforts was that they helped to prepare the ground for the inauguration of the college associated with the name and the bequest of John Owens.

In all the proposals made during the previous fifty years for the provision of higher education in Manchester, the advisability of relating the subjects of study to the conditions of the area had been recognised, though it is noticeable that in none of them was the aim of higher education as a mental discipline subordinated to the legitimate desire for practical results. Generally, the subjects taken in the existing universities were accepted as appropriate, with emphasis on the

need for a study of science, modern languages, and economic and commercial subjects. Of the provision during the first few years of the Owens College for the last group of subjects little is known, as the early prospectuses are not available; a formal calendar was not prepared until the session 1862-3. It is known, however, that in 1854 a decision was made to establish a chair of Commercial Science, and that in 1855 Richard Copley Christie, who was already Professor of History, was appointed to the "Faulkner Professorship of Political Economy and Commercial Science," and that shortly afterwards he added to his double duties those of Professor of Jurisprudence. Until the session 1862-3 it is impossible to say how much of Professor Christie's time was occupied with the duties of the Faulkner chair, but, when the first calendar was issued, he was announced as taking a day class (two hours) and an evening class (one hour) in political economy, with McCulloch's edition of *The Wealth of Nations* as text-book.

It was during this session that a long-standing question of the advisability of appointing a college tutor to assist backward students was decided upon, which proved to be an important event, for it resulted in William Stanley Jevons being appointed to the post, and in the session 1863-4 he was announced, with Professor Christie, as giving lectures in political economy with the same text-book as before, and the following syllabus: "Industrial Structure of Society will be described in some detail, and the simpler relations of Labour, Skill, Science, Property, Capital, Land, Trade, Money, Increase of Population, etc., considered." Jevons continued in this post until 1865, and then, on the death of Principal A. J. Scott in 1866, was appointed to the Chair of Logic, Mental and Moral Philosophy, to which, on the resignation of Professor Christie, was added the subject of Political Economy. His tenure of this chair terminated in September, 1876, and how large a proportion of the work which has made his name famous was given to the world during his period at Manchester may be seen by a perusal of a bibliography of his writings. Not to mention numerous printed lectures, addresses, and papers, several of which were delivered before the Manchester Statistical Society, over whose deliberations he presided in the years 1869-71,

his books included: *The Coal Question* (1865); *Elementary Lessons in Logic* (1870); *Theory of Political Economy* (1871); *Principles of Science* (1874); *Money* (1875). During this period, too, he had seen the Owens College remove from Quay Street to its present site (1873), and had taken an active part in the determination of its policy, in the years 1873-4 occupying the position of representative of the Senate on the Council of the College.

Immediately before Jevons left Manchester he was assisted in his college work by Elijah Helm, who took the evening class in political economy, and they lectured to the following syllabus: "Nature of Wealth, Metallic and Paper Currency, International Trade, Foreign Exchange, Division of Labour, Capital, Interest, Land, Rent, Profit, Co-operative Associations, Trade Unions, Theory of Value, Banking and Commercial Fluctuations." In addition to *The Wealth of Nations*, students were now advised to read Mill, *Principles of Political Economy*, and Jevons, *Theory of Political Economy*, and were expected to take full notes and write essays proposed in connection with the lectures. That Jevons was not anxious to leave Owens College is revealed in his letter of resignation. Actually, this letter was sent in 1875, but, under persuasion, he withdrew his resignation, and did not finally decide to sever his connection with the College until 1876. As stated in his letter, his main reason for the decision was that he might devote his time under the most advantageous circumstances to his literary and scientific work, and, in leaving, he found a source of gratification in the knowledge that he had "had some share in the second foundation of a college which is sure to have a great history."

When the resignation took effect, the chair, with its multifarious subjects, was immediately occupied by Robert Adamson, who offered day and evening courses in political economy with an unchanged syllabus, apart from the addition of the Functions of Government and Taxation. Later, however, Professor Adamson divided his courses into Theoretical Economics and Applied Economics, and also proposed courses in the History of Political Economy and in Economic History, but in 1882 he resigned the subject of political economy, which was taken over by J. E. Crawford Munro, whose responsibility extended also to law and jurisprudence.

By this time a University Charter had been secured (1880), but, judging from the calendar, one would suspect that, for some years after this event, political economy was not a strong subject in the University, though, under the title of " Principles of Political Economy and Taxation," it was included as a final subject in the groups of subjects for a degree in history. In 1890 Professor Munro resigned the subject, which appears to have reverted to Professor Adamson's department, where provision was made for lectures by J. S. Mackenzie, Lecturer in Mental and Moral Philosophy. Professor Adamson resigned his post in 1893, and in 1894 A. W. Flux was appointed Lecturer in Political Economy, and in 1898 became the first Professor to whose chair no other subject than political economy was attached. Professor Flux retained his chair until 1901, and it is of interest to note that this year he returns to the University as external examiner in political economy.

This brings us to the end of a period extending over nearly half a century, during which economic and commercial subjects had been studied in Manchester under the direction of a succession of eminent men whose names are a guarantee that the work performed had been university work of the highest order. But now the time had arrived for large changes. In 1901 Professor Flux was succeeded by S. J. Chapman, and in 1903 the Victoria University became the Victoria University of Manchester. Until this time political economy had not attained that position in the curriculum either of the Owens College or of the Victoria University which justified the formation of an Honours School in the subject, but, on the arrival of Professor Chapman, the Honours School of Economics and Political Science was brought into existence, Douglas Knoop becoming its first graduate in 1905, since when he has been joined by forty-nine others. In its inception the school was necessarily allotted to the Faculty of Arts, but in 1904 the Faculty of Commerce and Administration was established with Political Economy in its various branches as the central subject in the course for a degree in Commerce, and around it were grouped Modern Languages, Geography, History, Commercial Law, Accounting, and a large number of optional special subjects, including subjects within the scope of the Faculty of Science. As might be expected, in

view of the example which had been set since the early days of Owens College, this course was made available for evening as well as for day students. As stated in the first prospectus of the Faculty, the object of the training offered was not merely to give useful information, but to develop and discipline the mind, both generally and with special reference to the problems which must be faced in business and public life, and this object has been faithfully adhered to.

Immediately the Faculty was established, eleven students entered for the degree course, and by the session 1913-14 the number of entries had increased to fifty-five ; also, at the end of the session the total number of graduates in the Faculty had reached fifty-five. During the war years the number of entries fell as low as twenty, though in the session 1918-19 it had increased to thirty-six, and the total number of graduates to eighty-eight. Then came an expansion, so that in recent years the number of students entering for a degree course in the Faculty in each session has approached 200, while the total number of graduates now exceeds 400. Of these graduates forty-one have proceeded by way of thesis to the Master's degree, while thirty-eight have fulfilled the additional requirements to obtain Distinction in Economics, and nine Distinction in a Modern Language, Economic History, or Geography.

Evidently the foundation of the Faculty was firmly laid during the occupancy of the Chair of Political Economy by Professor Chapman, which he resigned in 1918, to be followed by D. H. Macgregor, who resigned in 1921. Of the immense service rendered to the Faculty by George Unwin between 1910, when he was appointed to the Chair of Economic History, and 1925, when he died, only those who had the privilege of working with him can form an adequate opinion.

Since 1925 the most important developments in the Faculty have been the institution of courses bearing on Public Administration, which had been left in abeyance since the inception of the Faculty, and of a post-graduate course in Social Study. Thus, at the moment, about forty of the students in the Faculty are reading for a degree in Administration, and already there are twelve graduates. Finally, in addition to those students who belong to the Faculty, mention should be made of the 150 students of other Faculties

who take political economy as one of their subjects ; of the 160 students who attend the courses in railway economics ; and of the 140 students, connected with the Manchester Bankers' Institute, who attend classes in political economy conducted by members of the university staff. It is thus that the aspirations which began to be expressed in the late eighteenth and early nineteenth centuries for the provision of university courses in Manchester, suited to the social and economic conditions of the area, and which were partially realised in the Owens College and in the Victoria University, have, in these later days, been more completely realised in the Victoria University of Manchester.

G. W. DANIELS
(Dean of the Faculty).

The University,
Manchester.

INDUSTRIAL ARBITRATION.[1]

INCREASED attention has been focused on the subject of Industrial Arbitration by the publication of " The Fixation of Wages in Australia," by Mr. Anderson, a lawyer practising in the Arbitration Court. It contains no reference to any economic theory of wages, and is concerned almost exclusively with an account of the procedure of, and the rules and principles laid down by, the Commonwealth Court of Arbitration. That is, perhaps, the most comprehensive experiment ever adopted for the fixation of wages by law. It is claimed by Mr. Justice Higgins, for many years President of the Commonwealth Court, that the experience of that Court constitutes what he calls *A New Province for Law and Order*—the title of his book on this subject. I wish to examine the claim implied in this title—namely, that the experience of Australia and New Zealand in the fixation of wages by courts and legal procedure is a possible substitute for our own methods.

Since they are not uniform, some reference must be made to the procedure and jurisdiction of the courts. The most important is the Commonwealth Court, but its power is restricted to disputes which extend beyond the boundaries of any of the six states of the Commonwealth. At the moment a referendum is pending—a necessary procedure for changing the Australian constitution—which, if carried, will have the effect of empowering this court to deal with industrial conditions in any State. Under the Commonwealth law strikes and lock-outs, which extend beyond the boundary of a single state, constitute a criminal offence. For this method of arriving at a settlement arbitration is substituted. For a time all disputes were referred to the Court ; in recent years, however, since the amendment of the law, the tendency has been to endeavour to prevent this by referring disputes to a board of conciliation appointed by the Court.

1. A lecture delivered by Professor Henry Clay at the annual gathering of W. E. A. students in the University, on Saturday, February 8.

Industrial legislation differs in the various states; in Queensland, Western Australia, and South Australia, strikes are illegal; in New South Wales this is not so, but there is a system of arbitration the purpose of which is to postpone strikes, and a legal minimum rate of wages is laid down by a permanent commission. Victoria and Tasmania are exceptional, for in these states there is no legal prohibition, but there are statutory trade boards and disputes are dealt with by these in the first instance. In New Zealand the law is embodied in two statutes. Under the one, a court is set up with which employers and trade unions are invited to register, and, to employers and trade unions so registered, strikes and lock-outs are prohibited. The award of the Arbitration Court, or any agreement registered with the Court, becomes legally binding. But registration is not compulsory; to meet the cases in which there is no registered union or employers' association the other Act was passed. By the Industrial Disputes Act of 1913 commissioners were appointed to deal with cases of dispute by taking a ballot of organised and unorganised workers; a strike is illegal unless this ballot reveals a substantial majority in favour of a stoppage of work.

Let us turn to the results of the experiment. This is a matter of some controversy, as different students have taken different views. In the first place, legislation must be declared to have failed in its original intention to eliminate strikes and lock-outs; it has limited lock-outs because it is easier to impose a law upon a limited number of employers than on a large number of workers. Mr. Justice Higgins, when he published his account claimed that the Court had eliminated strikes, and in 1915 he could make this declaration. Up to that time the Court had always been raising wages, for it had been a period of increasing prosperity and rising prices, and the function of the Court had been to adjust wages to the price level. Moreover, the unions had sent to the Court only those cases where they had wanted a settlement by arbitration. Since the war disputes have been more frequent, and demand a more detailed examination. A numerical comparison of strikes in proportion to population shows fewer strikes in Australia than in this country, but more than in America. Australia is not so highly industrialised

as this country ; agriculture there, occupies a much more important rôle, and disputes in agriculture are less frequent than in industry. New Zealand has fewer strikes than any country for which adequate statistics are available ; this may be due in part to the operation of the Industrial Conciliation Act ; but it may also be due to the fact that New Zealand is primarily an agricultural country, for there is no other industry employing as many as 9,000 workers. In Australia, the frequency of strikes is highest in New South Wales, lower in Victoria, and, generally, higher in those states where strikes are illegal than where they are not. The real cause or condition of industrial peace is not arbitration.

A comparison of New South Wales and Victoria shows a rough equality of population, and the same proportion of industrial and agricultural workers, yet in New South Wales, in spite of the legal obstacles, there are six times as many strikes as in Victoria. The major explanation would seem to be that the coal-mining industry is located in New South Wales, and strikes in coal mining are, generally, more frequent than in any other industry ; this is confirmed by the experience of England, where, both before and since the war, more than half the time lost in stoppages has been in the coal-mining industry. It would seem that legislation is not a major influence, and certainly not the decisive influence in controlling the frequency of disputes.

The second inference to be drawn is that effective results have been obtained from the conciliation procedure, which in every case has been added to the arbitration machinery to provide an alternative method of settlement. The object was to overcome the difficulty which the congestion of business in the Arbitration Court presented, and the method usually employed was the formation of a board representative of employers and trade unions under the chairmanship of a nominee of the Court. Since 1926 in Australia, and 1913 in New Zealand, full-time commissioners have been appointed to perform this work of conciliation ; each is responsible for a particular district, and the responsibility of convening the parties is on them.

There has been another Dominion experiment that is significant in this connection. During the last twenty years

there has been operative in Canada an Industrial Disputes Act, which does not prohibit, but endeavours to delay, a cessation of work likely to interrupt any public utility undertaking, until such time as a public inquiry has been held. The object of this legislation was not to prevent stoppages by direct prohibition, but to delay them until the public had been placed in possession of the facts by an inquiry. In actual experience the reports of such inquiries have been unimportant. In 90 per cent. of the cases, now numbering over 500, the inquiry has been used merely as a means of bringing the parties together and securing a compromise settlement. The administrators of the act have carefully refrained from acting on any declared uniform principles; their method has rather been one of private conciliation.

It is more difficult to reach an agreed conclusion as to the actual effect of legislation on wages and conditions. In a careful examination of the experience of Australia, Dr. Benham shows that wages as a whole do not seem to have varied significantly from what they would have been, so far as one can judge from other countries, if there had been no arbitration system. The Australian legislation has rather registered economic changes than caused or controlled them, for the relation of wages to income has been much the same as elsewhere. But there has been a change within the system of wage-rates itself; there has been a relative increase in the wages of unskilled labour, and a relative decline in the wages of skilled labour, diminishing the gap between the two. The same result accrued from the system of compulsory arbitration which operated in this country during the war, for in 1919 the ratio of wages of unskilled labour to that of skilled was considerably higher than in pre-war days. I do not think that the claim of Mr. Justice Higgins to have superseded economic forces can be maintained, since the Court only registered a change which would in any case have occurred. The chief economic effect has apparently been to increase the pull on the national income of those working under an arbitration system at the expense of those outside it, while it has probably been an influence helping to raise industrial prices in comparison with agricultural prices.

To us it seems bad and unnatural that there should be widespread breaches of the law of the land, and I wish now

to turn attention to this aspect of the problem. The object of this legislation is to prevent stoppages ; although it may have hampered them, it has entirely failed to eliminate them. Industrial unrest, as expressed in disputes, is just as frequent as one would expect, from a study of general economic conditions, under arbitration as under a system that opposes no legal obstacles to strikes. The best approach to an understanding of the attitude evinced towards arbitration legislation is to inquire how strikes and lock-outs arise. They are not the irresponsible outbreaks of lawless people ; they arise from a conflict of interests which seems to the parties to leave no alternative means of settlement. Most disputes are settled without a cessation of work, for of the disputes recorded before the war 97 per cent. were settled by negotiation. This need of adjusting wages to varying circumstances is inevitable, since economic conditions are constantly changing. Wage rates must be adapted to the needs and possibilities of the particular industry in which the workers are employed, and it is the inherent difficulty of this adjustment which leads to strike action in the last resort—a bad method perhaps, but still a method of reaching a solution.

In this country we have found it impossible to prevent the recourse to strikes, both because it is impracticable to coerce 200,000 miners, and because the feelings aroused are too strong. Consequently the State has wisely encouraged arbitration, but has not imposed it. In that, I think, the British Government has been wiser than that of Australia, where they have made it illegal to resort to strikes, and where the sense of obligation to legislation of this kind has apparently been less than in respect of other laws. The reason why we obey laws is that we feel that they are morally binding, and a law which does not carry this sense of moral obligation is apt to be disregarded ; and when the Australian workers feel that they are not under the same moral obligation to obey the Arbitration law as other laws they are probably right. It is a fallacy to draw a comparison between industrial and other disputes, and to claim for the settlement of these disputes the title of a new province for law and order. The essence of judicial procedure is the application of accepted rules to particular cases. In the case of wage disputes such rules and principles are lacking, and it is this peculiarity

which makes it difficult to apply to trade disputes methods of settlement which are successful in ordinary litigation. This difficulty has been felt in the practical experience of the Arbitration Courts of Australia and New Zealand, where, in the absence of guiding principles embodied in statute or common law, the judges were compelled to formulate their own. A new province for law and order has been established, it is true, consisting of the principles which the Court applies ; but these laws are the work not of the Australian Parliament, but rather the invention of Mr. Justice Higgins. He, not the elected representatives of the Australian people, is the legislator ; and it is natural that his laws should command rather less respect. It is only in exceptional cases and by analogy that a court of law in the ordinary sphere makes laws. In effect, what the legislatures in Australia and other countries have done, by prohibiting strikes and substituting courts presided over by a lawyer, is not to set up new legal principles, but to create a new subordinate legislative body.

There is much that is valuable in the principles and rulings which have emerged from the operation of these courts, and from the experience of lawyers in handling industrial disputes ; yet, in the main, it does not seem that we can settle once for all the principles on which wages and conditions of labour can be fixed, because the price paid for labour depends upon a whole complex of economic factors which are constantly changing. Further, I suggest that there is a fallacy in the common phrase which underlies much of Mr. Justice Higgins' argument—the phrase " industrial warfare." The strike is not an act of warfare ; it is not an active thing ; it is essentially passive. It causes inconvenience to other people, but it causes more inconvenience to the strikers than to anybody else, and this constitutes a safeguard against resort to the strike weapon. Since the parties who, in the last resort, cause the stoppage are those who will suffer most, we may reasonably infer that they have a good reason for resorting to such action. The strike is a matter of such importance that it cannot always be settled by any outside committee or judge. The conclusion I come to is that the Australian experiment does not merit the importance claimed for it as an economic expedient ; its significance is rather political—it typifies the unlimited faith of new states in legislative control.

Finally, there are three things I would like to add. First, the settlement of wages and terms of employment must be based on economic considerations, but it is not to be inferred that moral and political considerations have no part to play. A court, however, is not an appropriate body for deciding what other consideration shall override the economic ; this is clearly a matter for Parliament—it calls for the exercise not of the judicial function, but of the legislative.

Second, it is not to be presumed that arbitration, *qua* arbitration, is bad ; on the contrary, everything should be done to encourage it, but in so far as it is used as a compulsory alternative to the present system it is open to objection. The main value of arbitration lies in its voluntary use. Where the parties to industrial relations accept arbitration, they tacitly agree to accept the result, and therefore the award acquires a moral obligation which it does not possess when the parties are compelled to arbitration against their own will. Consequently there is great value in arbitration which rests on a voluntary basis, since it constitutes a convenient and economical method of settling differences.

Third, since arbitration work involves mainly the gauging of an economic situation, it is desirable that the arbitrator should be an economist rather than a lawyer, to whom, however, this type of work has been almost invariably entrusted in Australia and elsewhere.

THE BURDEN OF HEAVY TAXATION ON INDUSTRY AND TRADE.

THE recent American plan to reduce taxation when threatened with a trade slump, at a time when the omens in this country are pointing to an increase in taxation, notwithstanding the depression in trade, provides an occasion for re-examining the relationship between taxation and business prosperity.

Since the repeal of the Excess Profits Duty and of the Corporation Profits Tax, it might be contended, according to the more or less orthodox theory of incidence, that industry and trade, as represented by public joint-stock companies, have no burden of taxation to bear. Taxes on consumption fall on the consumer; taxes on income fall on the shareholders; death duties and super-tax are not payable by public limited companies; whilst onerous rates on business premises are passed on to the consumers. It would seem to follow that alterations in taxation were matters of indifference to business undertakings. This, however, is certainly not the case. Granted that the theory of incidence is correct, there are, nevertheless, both direct and indirect ways in which heavy taxation can prejudice industry and trade and prove to be a burden.

Indirect Effects of Heavy Taxation.

(i) Heavy taxation by way of income-tax and super-tax leads to a transfer of purchasing power from the more well-to-do to the less well-to-do sections of the community, through the medium of Government grants to the unemployed, to widows and orphans of insured persons, to soldiers' dependents, to disabled soldiers, etc. As a consequence, industries and trades supported more particularly by the purchases of the well-to-do tend to suffer, though other businesses supported by the less well-to-do may show a corresponding gain. If, however, it is high taxation abroad which diminishes the number and size of the orders placed with our luxury trades, our industries producing necessaries are not

likely to benefit instead, as most countries produce their necessaries at home.

(ii) Heavy taxation tends to diminish the national purchasing power in so far as the proceeds of taxation are used (*a*) to pay interest on external debt, or (*b*) to repay external debt.

(iii) Heavy taxation checks saving both by diminishing the power to save and by undermining the will to save. Less saving implies less new capital, and consequently fewer orders for those industries which are principally concerned with supplying plant and equipment of various kinds—*e.g.*, the iron and steel, shipbuilding, and engineering industries.

(iv) Heavy taxation encourages the holders of foreign and colonial investments, if they are in a position to save, to re-invest abroad the interest payments and any repayments of capital to which they may become entitled. Such a policy tends to reduce the already restricted supplies of capital available for developing home industries.

(v) Heavy taxation, by stimulating the taking of measures to reduce the burden, may have an unfavourable reaction in another way—*e.g.*, high motor taxation, based on Treasury rating of horse-power, has led to the development of a type of engine which has seriously handicapped the sale of our cheaper cars abroad.

Direct Effects of Heavy Taxation.

(i) Heavy taxation reduces the net sums which can be put to reserve, as profits not distributed to shareholders are subject to income-tax. Consequently the sums available for the building up of businesses are diminished, to the detriment of the soundness and prosperity of industry and trade.

(ii) Heavy taxation, by calling for big cash payments, may easily cause a business to use for tax payments an overdraft which was intended to finance wages and raw materials, and thus restrict trading activities.

(iii) Heavy taxation discourages enterprise and initiative in so far as it claims a substantial part of any profits which may accrue from success, but makes no allowance for any losses due to want of success, unless there be profits in the

particular accounting year against which the losses can be set. The recent substitution for income-tax purposes of the preceding year's profit for the average profit of the three preceding years diminishes the chance of setting off a loss against a profit.

(iv) Heavy taxation of an unequal kind collected from businesses is not readily passed on in its entirety to customers or shareholders—*e.g.*, undertakings carried on in a heavily rated area are prejudiced as compared with similar undertakings conducted in lightly rated areas ; the overburdened undertakings may be compelled to migrate or to close down.

The direct and indirect effects which have been enumerated are in no way incompatible with the accepted theory of incidence. It must be remembered, however, that passing on taxes to customers implies raising the price of the products ; if the demand is fairly elastic, seriously reduced sales may be the consequence. High rates on shops selling comforts and moderate luxuries may be mentioned by way of example. Attention must also be drawn to the fact that the theory of incidence is based on what tends to happen in the long period—*e.g.*, onerous rates as a business expense tend to be shifted on to the consumer. In the short period there may be various business expenses, including onerous rates, which cannot easily be shifted ; the problem then is, can the manufacturer or tradesman survive in business until the time when shifting is feasible, or will he go to the wall ? In Sheffield at the present time there are various shops in central positions to let. Shopkeepers have apparently not found it possible to pass on to consumers sufficient of their expenses, including rates, to enable them to continue in business. But for high rates they would undoubtedly have been able to struggle on for longer, and might have succeeded in tiding over the depression.

That high taxation can, and does, have a prejudicial effect on business undertakings would undoubtedly appear to be the case ; to raise or to lower taxation implies that ultimately a position more prejudicial, or less prejudicial, to business undertakings will be reached. It is quite conceivable, however, that owing to the pessimism or the optimism engendered, the immediate effect of raising or

lowering taxation may be much greater than the actual amount of the change would appear to warrant. There can be little doubt that the American authorities are relying on the immediate stimulating influence of tax reductions, rather than upon the ultimate effects. It will be interesting to observe whether their anticipations are justified.

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THE INCENTIVE TO WORK

AS AFFECTED BY UNEMPLOYMENT INSURANCE AND THE POOR LAW RESPECTIVELY.

AMONG the most contentious clauses of the new Unemployment Insurance Bill is that which so alters the conditions for benefit as to place the duty of finding work not on the individual, but on the Employment Exchange. Although this new clause is no doubt favoured not only by the unemployed workers themselves, but by very many Exchange officials, we need not be surprised that it has caused some further misgiving on the question of "incentive." As you make unemployment benefit easier to obtain, say the critics, you make the worker less anxious to secure work, or at least encourage him to stand out for employment which he regards as more suitable. That is the criticism I now wish to examine. I wish to examine it for the time being from one point of view only—from the point of view of the relationship between Unemployment Insurance and the Poor Law. Assuming that public payments *have* lessened the will to work (which in itself is doubtful), is it to Unemployment Insurance or to the Poor Law that we should affix the greater part of the responsibility?

At the outset we may recall the fact that many workers do not come under the Unemployment Insurance scheme at all. Agricultural workers are not insured; nor are most grades of railwaymen; nor are the "independent producers"—shopkeepers, chimney-sweeps, hawkers, small farmers, etc.,—who are often quite as poor as wage-earners, but who do not work under a contract of service. Among wage-earners alone there are some three or four millions not insured, while there are some two million non-wage-earners whose income falls below the exemption limit for income-tax. All these "uninsured" workers, who are under no circumstances eligible for unemployment benefit, may, in case of destitution, apply to the Guardians and receive the necessary assistance.

Even among "insured workers," however, the payment of outdoor relief has been an important influence. An average figure for the number of unemployed insured workers in receipt of out-relief during the normal months of the slump would be something over 120,000. All this host of workers must either have had their wage or benefit supplemented to bring it up to the scale of relief, or, having lost their claim to benefit, obtained the relief as a substitute. At the same time, the still larger host who are in receipt of benefit, but not of poor-relief at all, have the prospect before them of some alternative means of living if their title to benefit should cease.

It would be a mistake to suppose, of course, that the unemployed worker to whom benefit has been stopped or refused is always granted outdoor relief in consequence. An investigation in the London area showed that it was quite usual for only a third of the "disallowed" to find their way to the Guardians, while in one area the proportion was only one-eighth.[1] Apart from the fact that many self-respecting workers still refuse to apply to the Guardians except in the very last resort, there is also the fact that the Guardians are only supposed to relieve persons who are actually destitute. The Guardians may, for example, decline to assist families which have not sold or pawned most of their furniture. The unemployed worker whose right to benefit has ceased, and who wishes to secure outdoor relief, may thus have to go through a few more stages of impoverishment as an interlude. Also, the Poor Law is usually very strict in its treatment of single men—so strict as to call recently for a reprimand from the Minister of Health. In mid-June, 1928, there were, roughly, 84,000 able-bodied unemployed in receipt of outdoor relief, and of these only 15,500 were single men. Again, there are some Boards which have been able, by arrangement with local Councils, to secure employment in municipal works for many recipients of relief, and where this has been achieved on a large scale (as in Birmingham) the employment serves, not indeed as a "labour test," but as a deterrent to those applicants who are not really genuine. All these qualifications are worthy of full notice.

At the same time, we should not over-emphasise their

[1] *Cf.* Davison, *The Unemployed*, pp. 136-137.

importance. A more liberal meaning has been given to the word "destitution," till it has come to cover not only the lack of food, shelter, and clothing, but the lack of any material resources needed to ensure "health or bodily fitness for self-support." Although single men have often been treated with a sparing hand, they have, in some areas, been relieved almost indiscriminately. At Liverpool, in June, 1922, it was found that, roughly, 2,300 single able-bodied unemployed had been continuously drawing outdoor relief for a year or more. Again, though Leeds and other Unions have to some extent followed the example of Birmingham in the provision of schemes of work to accompany the grant of relief, such schemes are still the exception and not the rule. And, meanwhile, the other and older barriers to the free payment of relief—the strict inquiry into individual circumstances, the payment of relief in kind, and the ill-famed "Labour Test"—have been crumbling and falling in the manner so ably described by the Webbs in their monumental *Poor Law History*.[1]

At any rate we know for a fact that frequently the Unemployment Insurance scheme drops its burden only to see it promptly picked up by the nearest Board of Guardians. At times, in some areas, as much as four-fifths of the outdoor relief paid has been to insured workers whose benefit has been stopped. A tightening of the conditions for benefit may thus, instead of whipping the workers back to work, have simply the effect of whipping them into a closer sanctuary.

It remains to state certain special reasons why Poor Law payments are more likely to have reduced the will to work than payments of unemployment benefit. The first is that the latter payments are subject to requirements of previous contributions or employment for "reasonable" periods. The older "hands" tend to be disqualified under these requirements sooner or later. The result is that the Exchanges usually have a fairly constant turnover of labour. At some large centres the registers of unemployed applicants change almost entirely in a month or two months, and generally the "short-term" unemployed show a heavy preponderance.

1. See Sidney and Beatrice Webb, *English Poor Law History*, Part II., Vol. II., p. 980.

The Poor Law, on the other hand, does not lay down specifically any similar requirement. Although, in extreme cases, the chronically unemployed worker may sometimes be offered the alternative of "workhouse or nothing," this does not by any means follow as a matter of course. A considerable proportion, therefore, of the applicants to the Guardians have been out of work for long periods of time. An official White Paper of November, 1928, showed that of 84,000 able-bodied unemployed securing out-relief in June, 1928, one-half had been getting relief continuously for a year or more, 16,600 for three years or more, and 9,500 for four years or more. This would seem to indicate that idleness might be subsidised far more by the Poor Law than it could ever have been by Unemployment Insurance.

A second reason that may be urged in support of this view is that the amounts granted in outdoor relief have frequently exceeded the amounts payable in unemployment benefit. At Poplar, in 1922, the scale was 12s. 6d. plus rent for a single adult, 20s. plus rent for a married couple, with 6s. 6d. for the first child and 5s. for each remaining child in the family. A man with a wife and four children would thus receive over £2 in addition to his rent, while from the Insurance Fund, even after the introduction of dependants' benefit, he would have received only 24s. all-inclusive. Even now, when prices are much lower, there are—at Stepney, for example—similar scales in existence. It is true that the late Government contrived to secure widespread reductions, based on the general principle that the scale of relief should not be higher than the scale of unemployment benefit. The Manchester Board of Guardians, for example, was compelled to reduce its scale of relief from £1 a week for a married couple to 17s., which, with the rent allowance, would approximate to the benefit figure of 24s., and from 3s. to 2s. for each child up to 14 years of age. As the result of such reductions, the typical scale of relief to-day would probably be much on a level with that of unemployment benefit, but this was not so in the earlier years of the depression, and even now there are many scales of relief much higher than the average.

At first the various scales of relief were regarded simply as maxima. A special examination would be made into each case to find out how much the applicant really needed,

and he would be granted so much and no more. In the early stages of the present trade depression, however, many Unions came to apply the scales " rigidly "—that is, they granted the maximum in every case. This meant the granting of a fixed amount to the whole of the relieved population, and not the establishment of a fixed standard of living. From the point of view of our present subject, the danger of post-war scales of relief would seem to lie not so much in their amount as in their " rigidity."

Again, poor relief may be granted, unlike unemployment benefit, to workers who are engaged in a trade dispute. An example of this point was afforded in the mining dispute of 1926. Although, technically, relief to able-bodied miners was illegal, the Guardians were held to be justified, according to the principle of the Merthyr Tydvil judgment of 1900, in relieving their wives and children, a scale of 12s. for the wife and 4s. for each child being specially fixed for the purpose. As a matter of fact, it was the man who applied for these amounts, it was the man who received them, and no doubt he counted them as his income. All *married* miners, therefore, were virtually in receipt of relief throughout the period of the dispute. As regards single men, they became eligible when they had reached a state where they were " no longer physically able to perform work," while Relieving Officers, as always, were not only empowered, but required, to grant relief, including, where necessary, shelter as well as food, to any person in "sudden or urgent necessity."[1] Although Unemployment Insurance may indirectly have played its part in helping the locked-out men, partly by helping to stop blacklegging, and partly by providing some means of support for workers in other industries indirectly thrown out of employment, yet the part played by the Poor Law—its effect on the " incentive to work " under trade-dispute conditions—was more direct and of much greater significance.

Apart, too, from the payment of relief to unemployed workers who would otherwise not be relieved at all, there is the payment of supplementary relief—supplementary, that is, either to benefit or to wages. At some centres, often those where the scales of relief are highest, all recipients of

1. For information in this paragraph see Webbs' *Poor Law History*, Part II., Vol. II., pp. 840-845.

benefit can secure from the Guardians, almost automatically, a sufficient additional grant to bring their incomes up to the scale. Wherever this is done the scale of benefit is nullified, and public assistance is rendered so much the more attractive or tolerable. The other form of supplementary relief, relief in supplement to wages, is mainly found among casual workers. Among this class the form of "incentive" mainly required is the incentive to find, if possible, some other work than casual labouring. The casual, however, is naturally immobile, and the granting to him of outdoor relief, alongside the system of "supplementary benefit," may well fix him more firmly to the spot than ever. Supplementary relief may be granted to many to whom supplementary benefit is refused. It may be granted irrespective of the number of days worked per week wherever the wages for the week fall short of the relief scale. At some centres—for example, on the Tyne,—apart from a very few exceptions, no supplementary relief is allowed to casual workers, but in Liverpool and in the dock-suburbs of London the granting of such relief is a regular practice, not only to casual workers, but to all workers whose weekly earnings fall below the scale. This may easily have tended to check the movement into better-paid trades.

The purpose of this article should now be clear. It is to show that we cannot estimate the effect of Unemployment Insurance on the will to work without considering the parallel effect of the Poor Law, which is in many ways likely to be the greater of the two. That is not to say that either of these two systems of payment does have the effect suggested. The amounts paid, whether in benefit or relief, are pitiably small, and it is probable that the Exchequer could more easily stand their increase than the conscience of the nation could long stand their retention at the present level. The general opinion of Guardians and Relieving Officers, as of Exchange managers and clerks, is that the majority of men with whom they are brought into contact are quite genuine in their desire for work. It is also their opinion—proved time and time again by efforts in canvassing—that even those who appear to be "work-shy" will often, when work is actually found for them, accept it willingly and discharge it efficiently. Again, the reduction of "incentive," if it has

occurred, is not necessarily an evil. The willingness to accept any sort of work on any terms has been one of the most deplorable features of our industrial system in the past. I wish here to assert merely that, in so far as incentive has been reduced, for good or ill, by public payments, the responsibility must lie rather with the Poor Law than with the Unemployment Insurance scheme.

Against this conclusion, however, one word remains to be said. We have noticed that the character of the Poor Law has become much milder in recent years. The period during which this has happened is the period during which the great social services have come into being. It seems reasonable to suppose, therefore, that the social services, especially those which take the form of pensions and benefits, have played their part in the mitigation of the Poor Law. This may have happened in two ways. Firstly, the workers may have become less averse to applying for relief. What Mr. Lansbury has called " this nonsense about the disgrace of the Poor Law " could hardly have retained its former hold on the worker's mind when the relief afforded under the Poor Law was seen to resemble so closely the grants made under other schemes which were generally looked upon as quite respectable. As Inspector Bushell remarks in his report of 1928, " the former unwillingness to accept poor relief has been weakened by the coming of these rival forms of public assistance." Secondly, the growth of the social services has probably been partly responsible for the change in the attitude of the Guardians themselves. An authority accustomed to look upon relief as something wholly exceptional was bound to be influenced in its attitude in view of the enormous growth of pensions and benefits that we have recently witnessed in England, not all of them on a contributory basis. In the light of these considerations it would seem that our various schemes of insurance and pensions have forced up the scales and forced down the standards of Poor Law assistance. Any lessening of " incentive " caused by the present grants of poor relief, as well as of unemployment benefit, must, therefore, be laid partly at the door of the Insurance scheme.

R. S. GIBSON.

"LAISSEZ FAIRE."[1]

As we have in recent years been inundated with treatises lamenting, explaining, or rejoicing in the decline, decay, or end of *laissez faire*, and as few commentators agree as to what is meant by the formula, it would seem that the obvious thing to do is to trace its history. The original authorship of the phrase is still in dispute, but it does not matter in the least whether it came from the pen of Vincent de Gournay or Le Gendre or d'Argenson. What does matter is that the physiocrats adopted it, and made the phrase into a formula.

The basis of their sociology was that the best life could only be attained by conformity with the "natural order," and that everyone could be trusted to find out how to do it without coercion. Quesnay asserted that "to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort," and that "when everyone does this, the natural order, instead of being endangered, will be all the better assured." But, as Mercier de la Riviere pointed out, this would only happen under a perfectly free system. If the ideal type of State is to be realised, the movements of society must be spontaneous and not artificial.

From this argument two main conclusions were adduced. In the first place, trade should be free and all the petty restrictions on it should be abolished; in the second place, the activity of the legislature should be reduced to a minimum. It is easy enough to ridicule the ideas of the physiocrats if we conveniently forget with what industry in France had to contend. If we consider the fantastic medley of State regulation then prevailing, and the corrupt administration of public affairs, we can sympathise with those who decided that it would be no bad thing to try a little freedom.

Our next step takes us to Adam Smith, who in his *Wealth of Nations* advocated *laissez faire* as an eminently reasonable proposition. He maintained that every individual endeavours to use his capital in the employment that is most advantageous to himself, and that he is, in doing this, led

1. A paper read before an Economics Seminar in the University.

by an invisible hand, and, more concretely, by the working of economic forces, to prefer that employment which is most advantageous to society. It is, therefore, unnecessary for any outside body to interfere, and, being unnecessary, any interference will be either useless or harmful. " I have never," he adds, " known much good done by those who affected to trade for the public good " ; but he qualifies his statement by admitting that even the affectation is rare. Moreover, he continues, " what is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him." His general attitude towards State regulation is clearly expressed in his comment on apprenticeship. " The affected anxiety of the law lest they (the employers) should employ an improper person is as impertinent as it is oppressive."

But if Smith had no passionate admiration for statesmen, he was as little impressed by merchants—and this should be remembered. Two passages, admittedly extreme, will explain his attitude :

> " Our merchants and master manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods, both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people."

> " The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe, than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolising spirit, of merchants and manufacturers who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected, may be very easily prevented from disturbing the tranquillity of anybody but themselves."

We could add passages about landlords, working men, parsons, and peasant proprietors that display Smith in similar vein. He was no blind generaliser, no doctrinaire. It is not, therefore, surprising to find that his *laissez faire* attitude is

less rigid than that of the physiocrats. He believes it to be part of the duty of the State to undertake such enterprises as would not be undertaken by individuals because of the distant or intangible nature of the return on them. He thinks there is a strong case to be made for such things as compulsory education, State administration of the postal services, and limitation of the powers of banks :

> " Such regulations may, no doubt, be considered as in some respects a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole of society, are, and ought to be, restrained by the laws of all governments."

If this is *laissez faire,* it is not the *laissez faire* of the physiocrats.

It is evident that Smith was not very sure that private and social interests were harmonious. Malthus and Ricardo urged emphatically that the two interests diverged ; but both held strongly the doctrine of individual liberty. They helped to destroy the old basis of *laissez faire,* and continued to advocate its practical expediency.

John Stuart Mill went further, and thought it absurd to believe that there was harmony between private and public interest. He saw that consumers were ignorant, that the scales were weighted against the working classes, and that maximum profit to the individual did not necessarily imply maximum benefit to the community. Therefore, in such things as gas and water supply, making and improving harbours, and all things in which unfettered individualism would be detrimental to society as a whole, he favours State intervention. Nevertheless, he considers that such intervention should never be admitted " but when the case of expediency is strong." Throughout the *Principles* he sounds the individualistic note of the new *laissez faire :*

> " The present civilisation tends so strongly to make the power of persons acting in masses the only substantial power in society, that there was never more necessity for surrounding individual independence of thought, speech, and conduct, with the most powerful defences, in order to maintain that originality of mind and individuality of character which are the source of any real progress, and of most of the qualities which make the human race much superior to any herd of animals."

We have traced the history of the formula, but are we any nearer to understanding what it means? At least we know what it does not mean, so that we are in a position to consider some of the definitions that have been advanced. Mrs. Gertrude Williams is typical of one section of those who scorn *laissez faire*. To her it is the false optimism of those who cry that " all is for the best in the best of all possible worlds." Carlyle represents another group. Political Economy

> " sounds with Philosophico-Politice-Economic plummet the deep dark sea of troubles, and having taught us rightly what an infinite sea of troubles it is, sums up with the practical inference and use of consolation that nothing whatever can be done in it by man, who has simply to sit still and look wistfully to ' time and general laws,' and thereupon without so much as recommending suicide coldly takes its leave of us."

Obviously they cannot both be right ; actually both are wrong. Adam Smith, writing on free trade in a protectionist age, neither said that all was for the best, nor that nothing could be done ; Ricardo, discussing post-war finance, is not noticeably wistful, and not too greatly preoccupied with " time and general laws," nor is he wreathed in jocund appreciation of the state of affairs ; while Mill is neither helplessly pessimistic nor fatuously optimistic in his survey of social problems. We cannot, then, accept these definitions.

Marshall is over-cautious :

> " *Laissez faire, laissez aller*, is commonly misapplied now. *Laissez faire* means that anyone should be allowed to make what things he likes, and as he likes ; that all trades should be open to everybody ; that Government should not, as the Colbertists insisted, prescribe to manufacturers the fashions of their cloth."

Marshall is here trying to restrict the phrase to the physiocratic sense, without, I think, much justification. After all, the misapplication has lasted longer than the original application. But his definition contains an important implication : the *laissez faire* of Quesnay is not the *laissez faire* of Smith.

Finally we turn to one who is primarily a historian of economic thought, M. Gide :

> " We have already protested against interpreting *laissez faire* as a mere negation of all activity. It ought to be accepted in the English sense of fair play and of keeping a clear field

> for the combatants. The economists both of the past and of the present have always been indefatigable wranglers and controversialists of the first order, and they have never hesitated to denounce abuses. But their optimism is based upon the belief that the prevalence of evil in the economic structure is due to the imperfect realisation of liberty."

The definition is ingenious, but not quite convincing. The idea of the State assisting the weaker party, handicapping the stronger, and then letting them fight it out, is alien to the spirit of *laissez faire;* it makes the State too important. As I see it, *laissez faire* is an address to Government, and it means: "You are only our executive; you only do what we can't do as individuals, but don't interfere!"

The basis of *laissez faire* is distrust of the State. We cannot say that it depends on a belief that private and public interests coincided, for, as we have shown, the economists of the earlier nineteenth century denied the coincidence, and Smith was not sure of it. Nor can we assign it to a definite period. If the repeal of the Corn Laws was its crowning victory, the passing of the Health and Morals of Apprentices Act forty years before was its early defeat. So we have to look for something more nebulous, and we find it in distrust.

The first reason for distrust is historic. The results of State interference had not been very happy at the time when Smith wrote. A measure of freedom was then tried, and it succeeded. Social conditions were bad, but not so bad as they had been. Taken all in all, the new *régime* was doing better than the old.

But such a reason could not last for ever, because we are fonder of comparing "what is" with "what should be," rather than with "what was." Nevertheless, our distrust is not removed, for the State is not the only alternative to the individual. Society is greater than the State, and the State—that is, Government—does not accurately typify the Society of which it is but a part. It was natural that when an individualism that scorned the State was proved to rest on an inaccurate premise, there should be a reaction in favour of the State. It was also natural that the reaction should go too far, and should ridiculously idealise Government—but the old distrust remains. Of our political parties only one pins its faith unreservedly to the State as the regulator of Society,

and even in the party of the reaction there are signs of doubt. The slow liberalisation of socialism is the slow victory of *laissez faire*.

But if we assume socialism, or any other -ism, to be the negation of *laissez faire*, we cannot accept it as a working policy. We distrust it as a national policy because it represents a short cut to an ideal, and ideals are won only by toil. Let it be clearly understood that *laissez faire* is not the denial of idealism, for it is neither content nor resignation. But it implies that ideals cannot be rushed, and that the only safe way of progress is the slow way of general social advance. It does not rule out State intervention as a means to be employed in this advance, but it makes such intervention one factor in many.

It does not matter in the least what our ideals are. We may wish to see the time when—

> " Each man finds his own in all men's good,
> And all men work in noble brotherhood,
> Breaking their armoured fleets and mailed towers,
> And ruling by obeying Nature's powers,
> And gathering all the fruits of peace and crowned with
> all her flowers,"

as Tennyson wrote when the Exhibition was opened in 1861. Our ideal may be Christianity, Communism, or Rotarianism. It may be Rupert Brooke's " gospel of integration for fun," as Mr. Robertson calls it :

> " You'll see what fun it is working together, instead of in a dirty little corner alone, suspicious, greedy, competitive, hating all the world, like a modern artist, or a French peasant, or a moneylender, or a golfer."

It may be anything, but if it is of any worth it will call for an alteration of character. And such alteration must precede, not follow, legislation.

The late Professor Unwin has put this so admirably in an article on Political Idealism that I cannot do better than quote him at length :

> " Social progress is nothing more nor less than the growth of the social character. That is why it is so slow. The germ of Society lies in the sympathetic preference which leads the primæval savage to batter his wife and family with a club, while he shoots everybody else with poisoned arrows. The end of Society—the completed social character—will be

achieved when all earth's teeming millions have become the living embodiment of the principle of 'all for each and each for all.' The distance between these two points is immense, and we shall not lessen it by glib generalities about the brotherhood of man. Every step towards the widening of human sympathies is gained at the cost of painful effort and resolute self-sacrifice. Sympathy, let us remember, simply means 'suffering together,' and when sympathy goes beyond mere 'gush,' it becomes a hard business for our poor human nature. When we have carefully pondered the facts of our daily intercourse with men, and have observed how hard it is for two churches, two branches of a trade, or even two sisters-in-law, to enter into each other's feelings, we shall find less room for astonishment at the slowness of human progress.

"These truths have a very important bearing on the frame of mind which I have called political idealism. The case of us political idealists is in many ways parallel to that of the young man just entering on life. We belong for the most part to those classes which, until very recently, were almost entirely excluded from the exercise of political power. We have had little or no part in the failures of the past, and we may credit ourselves with infinite possibilities for the future. This is the source of what I may call the second great fallacy of political idealism—I mean the confusion of thought which leads us to identify ourselves with the forces that make for progress, and to leave out of sight the great forces of resistance and of friction which lie hidden in us as a class. It is a fallacy which not only tends to make us too sanguine for the future—that is a fault which is easily pardoned,—it tends also to make us intolerant of the past, and so incapable of learning its most valuable lessons. The main lesson of history is that of the natural growth of the social mind and character, a growth which is necessarily slow. If we overlook this necessity, and talk as if all our present ideals might have been realised at the dawn of history but for the selfishness and caprice of individuals or classes, we shut our eyes to the elementary facts of social science."

We can then continue to believe in *laissez faire*. We have modified it to make it the challenge of Society instead of the demand of the individual, believing the modification to be logical, as the underlying strength of the formula is a well-grounded distrust of the State. Wherever the distrust is overcome, it means that the social character has so progressed that it can accept new legislation. But so long as that character is incomplete, *laissez faire* must persist.

E. ROGERS.

REVIEWS.

A Review of Economic Theory. By Edwin Cannan. (P. S. King. 16s.)

It is given to few men to impress upon the minds with which they come in contact their *rationale* of thought and intellectual sympathy. Marshall had this honour, and his pupils equally with his *Principles* are a monument to his memory. It appears to me that Professor Cannan has joined this select company, for in his *Review*, fertile with ideas, can be found suggestions on which much of the work of the London School of Economics has been based.

This is a very able book, exceptionally readable, reflecting the thoughts of an agile and brilliant mind; it is a mine of information, and a comprehensive commentary on the thoughts of the past. It is not, however, a constructive work, and probably as a teacher of economics Professor Cannan will be remembered rather by the School he influenced so greatly than by this written work.

The author, in a deft manner and with sure touch, finds the flaws in the writings which economists since Plato have presented to us. It would not, I think, be untrue to say that he looks upon the evolution of economic theory from a certain detached and unique standpoint—not that of one who watches the growth of economic thought, sees errors appear and errors rectified, nor of one who consistently traces the effect of social and national thought upon the science of wealth. The standpoint is rather that of a critic, and at times a rather hard, almost unjust critic, who even reduces J. S. Mill, that giant of intellectual stature, to the size of a chastised schoolboy.

This work is called a review, the author tells us in his preface, because a reviewer omits what he wants to omit. Yet one must add that this is not a complete textbook of economics; it is a book of suggestion and criticism, and though as such it is a masterpiece, one feels disappointed that Professor Cannan has not found it possible to get more close to the hearts of the problems the surface of which his intellect so brilliantly illuminates. J. S.

The Post-war Unemployment Problem. By HENRY CLAY. (Macmillan and Co., 1929. 8s. 6d.)

THE basis of this book is a series of public lectures given by Professor Clay in the University last session. It is an exhaustive analysis of the post-war situation, involving a wide survey of economic conditions in this country since the war and of the world factors which have influenced these conditions. The task was a formidable one, but Professor Clay has a brilliant gift for summarising masses of facts and drawing generalisations from them.

The course of unemployment during the last nine years is traced, and, after an examination of the general influences which have been operating, Professor Clay brings out the fact that the depression from which we have suffered so long is partly to be explained as a number of separate and distinct problems affecting certain industries. These industries—our staple export industries—are Professor Clay's principal concern. He stresses the fact that the solution of the unemployment problem depends ultimately upon their revival. Such expansion of industry and employment as has been fostered by protective duties and the granting of subsidies is insignificant as compared with the shrinkage of employment in the coal, iron and steel, engineering, shipbuilding, and cotton industries. The urgent need for these industries to reduce their costs so that they can improve their position in world markets, and their inability to do so without drastic reorganisation—a step some are reluctant to take—leads Professor Clay to a consideration of how this reorganisation might be hastened by outside intervention.

It is on this point that his constructive proposals will rouse most controversy. He argues that the urgency of the situation justifies the government in supplying the impulse private enterprise seems unable to give. This help might take the form, he suggests, of the establishment by the government of an organisation similar in type to an issuing house. This organisation would be run by experts, and would have power to advance loans on condition that its proposals for reconstruction were accepted. Its rôle is not to be a negative one, for it is to " review in turn the needs of industries that appear to need reorganisation and make proposals to them." When he wrote these words he despaired

of the stimulus being supplied by the orthodox financial organisations—banks and issuing houses—but since then the Bank of England has taken action on lines similar to those he has laid down, and an experiment is about to be made which will be watched with interest ; not less as Professor Clay will play a part therein. F. C.

Types of Economic Theory. By OTHMAR SPANN. Translated by EDEN and CEDAR PAUL. (George Allen and Unwin. 10s. 6d.)

I WONDERED, while reading Professor Spann's book, among which class of economists, universalist or individualist, I find my scientific home. Questioning myself, I find that I do not regard the economic system as atomistic, progressing only before the urge of particularist self-interest ; neither am I prepared to submerge the science of economics in the sea of sociality. Perhaps I am a hybrid, seeing the " articulated ordination of the economic aggregation " rather in the theory of prices, which seems to me a reflection of the co-ordination and mutual dependence of economic endeavours, than in a system of achievements, granted the two aspects are separable. In any case, the question which comes first might just as well be asked of the importance of supply and demand. The theory of achievement or production, were it not supported by Professor Spann's emphasis on capital of a higher grade, seems verging perilously on the individualistic.

Even, however, if this book does not enable one to catalogue beliefs, and opinions on methodology, it provides an interesting example of the historical line of approach. It is very comprehensive, especially as regards Germanic thought, but it suffers somewhat from its ambitious scope. As an interesting introduction to economic thought it will stimulate curiosity to know more of the views of economists, who, necessarily, are somewhat cursorily treated in its pages. Without considerable alteration in the methods of university teaching, however, this book is not likely to become the standard introduction to economics in this country, but the unusualness of the views expressed, and the keenness of the criticisms outlined, make it a valuable addition to the economic literature of the English language. When economic theory is somewhat neglected, and practical results so highly

valued, it is refreshing and stimulating to have even one's belief in the law of diminishing utility called to account. The translators have performed competently a difficult task.

J. S.

A Study of the Principles of Politics. By Prof. G. E. G. Catlin. (George Allen and Unwin. 18s.)

This "essay towards political rationalisation" is not an easy book to read, but the fruits of its perusal are ample reward for the mental effort involved. The author believes that politics is as much a science as is economics, and that its peculiar study is the control-relationship of wills—a relationship analogous to that of physical equilibration and chemical balance, and, therefore, possessing laws. Here there is ample room for controversy. One hesitates to prefer the will to the individual as the political unit, for though it makes for precision, it tends, too, to artificiality; but with these mental reservations one agrees with the author. Then, having laws, we must apply them. Social facts must be studied, and a technique of social investigation evolved. "In the age in which we live, clumsy hit-or-miss methods are no less excusable in administrative methods and social organisation than in the mechanism of industry."

So bald a summary does not do justice to the sterling merit of Professor Catlin's work. His studies of the group, his views on internationalism and the State, and the solid weight of his plea for reason rather than muddle, are inestimably valuable as challenges to woolly thinking. But he must be wary in his economic parallelisms. There is no "law of decrease of profits in proportion to increase of prices beyond the limit of marginal utility" (p. 200). As the author himself says of Cobbett, what he means is right—what he says is wrong.

E. R.

MISCELLANY.

THE Departments of Economics and Commerce are to suffer a severe loss by the resignation of Professor Henry Clay, who was Stanley Jevons Professor of Political Economy from 1922 to 1927, and who has since held the Chair of Social Economics. Professor Clay is leaving to take charge of the economic intelligence division of Securities Management Trust, Ltd., the new subsidiary which the Bank of England has recently established. The function of this company is to manage the interests which the Bank has acquired in certain industrial concerns which it has assisted to reorganise.

Professor Clay was President of Section F (Economics and Statistics) at the British Association meeting in South Africa in 1929. While there he received the degree of D.Sc. from the University of Capetown, and was invited by the Government of Southern Rhodesia to visit that country to advise on legislation dealing with industrial disputes. Professor Clay's report will shortly be published.

The Ludwig Mond lecture of November 7, 1929, inaugurated a departure from traditional lines, in that it was given by an economist, Mr. J. M. Keynes. The subject of the address was " The Advisability of Methods Other than High Wages as a Means of Improving the Conditions of the Working Class."

Mr. John Jewkes, Lecturer in Commerce in the University, has been elected to a Research Fellowship in Social Science under the Laura Spelman Rockefeller Foundation, and is on leave of absence during the session 1929-30 to make investigations into the trust problem in the United States.

Mr. E. Allen resigned his post as Assistant Lecturer in Economics, to take up a Lectureship at Armstrong College, Newcastle-on-Tyne, and Mr. S. G. Roberts has been appointed to the post vacated by Mr. Allen.

During the present session, among other appointments which have been made, are the following :

Mr. Arthur Roberts as Special Lecturer in the Economics of the Cotton Industry in the University.

Miss Hilary Daniels to the Wardenship of the David Lewis Club, Liverpool.

Miss K. J. Allison, to the Sub-Wardenship of Victoria Settlement, Liverpool.

Miss Marion Cooper, to the post of Woman Property Manager, Grosvenor Housing Estate, Westminster City Council.

Miss Sybil Simpson to the Research Staff of the Cotton Trade Statistical Bureau, which acts as secretariat to the Joint Committee of Cotton Trade Organisations.

Mr. S. R. Chaloner, on leaving the staff of *The Commercial*, to become Assistant Editor of *The Financial News*.

Mr. H. L. Marsden to the Principalship of the Manchester High School of Commerce.

Mr. Joseph Sykes, head of the Department of Economics, Exeter University College, to the Wardenship of Aston Hall, Plymouth.

Mr. W. E. Salt to a Staff Tutorship in Economics under Bristol University.

Miss Marjorie Rogers has recently qualified as H.M. Inspector of Taxes.

The following have been published by members of the department :

Capital, Labour, and the Consumer. Prof. G. W. Daniels. (Benn.)

The Problem of Industrial Relations. Prof. Henry Clay. (Macmillan.)

The Post-War Unemployment Problem. Prof. Henry Clay. (Macmillan.)

The Coal Industry of the 18th Century. T. S. Ashton and J. Sykes. (Manchester Univ. Press.)

The Problem of Road Transport. C. T. Brunner. (Benn.)

The Problem of Oil. C. T. Brunner. (Benn.)

ECONOMIC JOURNAL, vol. xxxix., No. 155:
The Public Regulation of Wages. Prof. Henry Clay.

ECONOMIC JOURNAL (Supplement), vol. ii.:
Nos. 4 and 5. *A Turnout of Bolton Machine Makers in* 1831. Prof. G. W. Daniels.

No. 5. *Crompton's Census of the Cotton Industry,* 1811. Prof. G. W. Daniels.

The Localisation of the Cotton Industry. J. Jewkes.
An Early Factory Community. F. Collier.

ECONOMIC HISTORY REVIEW, vol. ii., No. 1:
The Records of a Derbyshire Colliery, 1763-1779. Prof. G. W. Daniels and T. S. Ashton.

TRANSACTIONS OF THE MANCHESTER STATISTICAL SOCIETY:
Fluctuations in Savings Bank Deposits. T. S. Ashton.
Cyclical Fluctuations in the Railway Industry. C. D. Campbell.

RECENT CRITICISMS OF THE THEORY OF WAGES.

In formulating a general theory of the consumable income of a national community, and of its distribution among the factors that have contributed to it, the first condition that must be observed is that the total of the income within a given time cannot exceed the aggregate amount of the commodities and services that become available as consumable income within that time.[1] Evidently this amount may, within the given time, be greater than the net production of the community within that time, for it may include that amount of previous income which has assumed capital forms, and which has now become fluid, and which has not again assumed capital forms. In this way the total consumable income of the community might for a considerable time exceed its net production. Certainly, the total would tend continuously to become less, but until all the capital had been exhausted the position indicated could obtain. Ultimately, of course, this living beyond net income would have to cease, and, at any time, on the assumption that it is considered inadvisable that the capital resources of a community should be drawn upon and utilised as consumable income, a community must confine this income within the limits of its net production.

The second condition that must be observed is that, on the assumption that the total income of the community is to be the largest attainable at a particular time, all the members of the community able and willing to work, and all the capital available for utilisation, must contribute to

[1] Strictly, of course, the true conception of income is that of a continuous flow through time, during which its volume may increase or decrease because of increases or decreases in the quantities and efficiencies of the contributing factors. Moreover, some portion of the commodities and services which constitute the consumable income may have accrued by way of exchange, or because of certain claims, from beyond the boundaries of the national community. For the immediate purpose it is not invalid to regard this portion as part of the actual production of the community, nor is it invalid, while recognising that consumable income is a flow through time, to speak of this income within a given time.

the total income and share in its distribution. Whatever the amount of the share of any factor may be, it must be a postulate of general theory that there is some employment in which all the available factors can engage, and so contribute to the total income. This carries the implication that the most appropriate employment for any factor will be that which will result in the total income being the largest attainable at the time, and that the principle of substitution will operate to this end.

In practice the above condition may be far from being realised. That the principle of substitution will operate may be taken for granted, but its operation may be very sluggish. Moreover, in the community, there may be many unemployed factors in addition to those that are not expected to be employed. Willingness to work and availability of capital for utilisation may be dependent upon the receipt of a larger amount of income than can be obtained in the circumstances of the time. Maybe, existing employments would provide the required amount, but this amount may be less than that which the factors already engaged in the employments are receiving, and their power of resistance may be sufficient to prevent the entry of additional factors. On the other hand, other employments which can provide the required amount may be impossible of creation. This may be due to the existence of limits below which it is unreasonable to expect that the required amount will fall. Thus, so far as human factors are concerned, such limits may take the form of unemployment insurance benefit, or minimum wage legislation, which, however good their justification, may involve that certain human factors do not make that contribution to the total income which they might, with the result that, not only is this income less than the largest attainable, but, also, to the extent that these unemployed factors have to be maintained, that the total income which ultimately accrues to the factors that do contribute to the income is reduced in amount.[1]

[1] It must be understood that I do not deny that unemployment insurance benefit can be regarded as a deferred payment to the insured, or that unemployment insurance schemes and minimum wage legislation may, in practice, have beneficial reactions on the total income. It would, however, be too extraordinary to suppose that, because of the possibility of such reactions, the presence of a disease is preferable to its absence.

The third condition that must be observed is that any general theory which seeks to explain the distribution of the total income of the community among the contributing factors can only be complete if the total of their shares exactly equals the total income. Observing this condition, and assuming that each factor will be engaged in its most appropriate employment, this distribution can be determined in general theory on the principle that, from the point of view of each contributing factor, the share of each factor is the largest obtainable at a particular time, and, from the point of view of the other factors, that the share of each factor is the smallest payable at that time. Thus, if this condition is observed, an equilibrium can be postulated so that, other things remaining the same, any departure from it will set in motion forces which will operate to restore the equilibrium. The critical words in the last statement are, other things remaining the same, but the device which they denote is quite legitimate, and is one which must be utilised in any science which includes variables; otherwise no solutions are possible.

The objection which may be raised to the above statement is that the conditions laid down therein are not, and are not likely to be, realised in practice, and that consequently the statement serves no useful purpose. Already, to some extent, this objection has been admitted, and may be admitted to a further extent, but the admission does not apply to the consequence. Rather, it is here insisted that the conditions are such as tend to be realised in a community wherein the forces of demand and supply, with the principle of substitution, are operative. The value of the statement is that it serves as a background against which actual practice can be seen in a clearer light.

The immediate occasion of the statement is the criticism of existing general wage theory by Messrs. Rowe and Dobb in their recently published books, and in an article which Mr. Dobb contributed to a recent issue of the ECONOMIC JOURNAL.[1] One feature of the criticism is that, although the methods of the two critics are different, between their views there is, at bottom, a certain resemblance. Judging solely on

[1] Rowe, *Wages in Practice and Theory*; Dobb, *Wages*. ECONOMIC JOURNAL, December, 1929: *A Sceptical View of the Theory of Wages*.

internal evidence one would suspect that Mr. Dobb has been giving his attention to the development of wage theory, during the nineteenth century, in the writings of the orthodox, and that he has been strongly impressed by the attacks on this theory by the unorthodox;[1] while Mr. Rowe, having been immersed in his valuable investigations into the conditions of wage determination in various industries, has avowedly arrived at his position because of a lack of accord he sees between existing theory and actual fact. In the result both the critics emerge as iconoclasts, though one is more cautious than the other. Apparently, while Mr. Dobb would not be indisposed to throw existing theory on the scrap-heap; Mr. Rowe shrinks from subjecting it to such violent treatment, or, rather, he avoids the task by insisting that it is not of sufficient substance to allow of the treatment.

However, so far as Mr. Rowe is concerned, this insistence may perhaps be taken as little more than a rhetorical flourish. He recognises that no general theory can be more than a background, but he is extremely dubious of the adequacy of existing wage theory for the purpose. "Existing wage theory," he writes, "insists that wages are determined almost exclusively by purely economic causes and demonstrates how any human efforts will ultimately be brought to naught if the equilibrium of economic laws is either consciously or unconsciously disturbed."[2] What Mr. Rowe understands by purely economic causes is indicated in another passage (referring to Marshall), in which he states that "He based his theory on the implicit assumption that wages are determined, at least within comparatively narrow limits, by the general conditions of demand and supply, that is by purely economic causes," a conclusion with which "nearly all wage theorists have been in agreement, though . . . their diagnoses as to what economic causes are specially relevant may vary in detail.[3] The inadequacy of this theory, as Mr. Rowe sees it, is that it does not give due weight to the influence of collective bargaining in the determination of wages. This influence, he

[1] Possibly Mr. Dobb may have included, in his reading, Thornton, *On Labour*. In suggesting this, I am thinking of Thornton's general views on the actual relations of labour and capital, not of his disproval of the conception of the wage-fund, a conception which appears to have a certain attractiveness for Mr. Dobb.

[2] Rowe, *ibid.*, p. 199. [3] *Ibid.*, p. 198.

insists, is a real, permanent, and general influence which operates by impelling employers to inventiveness, to introduce improved methods, and generally to organise their undertakings with that efficiency which will enable them to pay the rate of wages which organised collective bargaining has enabled labour to secure. So impressed is he with the power of this influence on the general wage level that he arrives at the practical conclusion that it should be constantly, though not without discretion, exerted to the end that, as far as may be, the level shall constantly rise.

The immediate impression that one receives on reading this view of the influence of collective bargaining in the determination of the wage level is that it contains very little which bears directly on the question of the adequacy of existing wage theory. On the assumption that collective bargaining can, somehow, exert a pressure on employers which shall help to ensure that at all times the economic system shall be working with maximum efficiency, Mr. Rowe seems to be saying little more than those who insist on the obvious truth that the larger the total income of a community the more there is to distribute. And that he does mean something like this is revealed in other of his statements. What other meaning can be attached to his statement that "the function and aim of trade unionism should be to *increase* the marginal productivity of labour, by reinforcing competition as a spur to progress"?[1] Moreover, he recognises that the pressure of collective bargaining may not at all times attain the end in view. When he speaks of a constant pressure on employers, he does not mean a pressure without intermission or regardless of circumstances, as is clearly seen in his further statement that "by applying a pressure on employers so great that they will not, or cannot, bear it, trade unionism may fail to evoke any response towards greater efficiency, and so lose just as much as they may forego by an unnecessarily lax policy."[2] Instead of this being a criticism of existing wage theory, and a plea for its reconstruction, it would seem rather to be a vindication of it. In the light of general theory, the case which Mr. Rowe presents would seem to be capable of the interpretation that an equilibrium may be attained with wages at a certain level; by the pressure of collective

[1] Rowe, *ibid.*, p. 228. The italics are Mr. Rowe's. [2] Rowe, *ibid.*, p. 213.

bargaining a higher equilibrium may be attained with wages at a higher level ; by the same pressure a lower equilibrium may be attained with wages at a lower level. When the pressure was applied other things did not remain the same. Only on the unwarranted assumption that " other things remaining the same " [1] means that, in the actual world, they always do remain the same, does Mr. Rowe, on the grounds so far stated, appear to have made out a case against the validity of existing wage theory as a general theory.

At this point, however, Mr. Rowe's second line of criticism of existing wage theory as affected by collective bargaining should be noticed. According to the quotations already given, demand and supply are regarded by Mr. Rowe as purely economic causes, and collective bargaining as a form of human effort. Leaving aside this dubious distinction, the quotations also suggest that, as Mr. Rowe sees existing wage theory, it contains an implication that, when collective bargaining is present in the determination of wages, there is a conflict with demand and supply which ultimately results in the power of collective bargaining being brought to naught. Whether in an indefinitely long period this result would be attained is a question which may be left to the long period to answer. It is much more important to know something of the relation between demand and supply and collective bargaining at any given moment. At such a moment it would hardly appear that the relation is one of conflict at all. The relation is then more accurately expressed by saying, not that collective bargaining conflicts with demand and supply, but that it plays a part in determining the scope in which demand and supply operate. In general theory it is assumed that demand and supply—with the principle of substitution—have full scope in which to operate ; but if, in practice, general theory is not realised, it follows that collective bargaining may either widen or narrow the scope. If the former, one would expect that general theory would be more nearly realised ; if the latter, that general theory would be less nearly realised. That collective bargaining may have an influence upon the extent to which general theory is

[1] Mr. Rowe (*ibid.*, p. 201) speaks of the use of the qualifying clause, " other things being equal," as having earned contempt for economists. Would he extend the contempt to those concerned with the many other branches of science in which the device is used ?

realised in practice must be admitted. The modification which its introduction may occasion is by reducing or extending the applicability, in actual affairs, of that part of the theory which assumes that all the available factors of production will be employed, and that each factor will contribute to the total income its most appropriate quota, with the consequence that the previous distribution of this income may also undergo modification. On the other hand, it is conceivable that the introduction of collective bargaining may have no effect, not because it cannot have an effect, but because the bargained wage rates are the same as would have existed had collective bargaining been absent.

This brings us to a third important point in Mr. Rowe's criticism of existing wage theory. With the support of high authority he insists " that even when employers and employed are more or less unorganised, the terms of any specific wage-bargain depend on the relative strength of the competing parties, and that, when both parties are strongly organised, so that conditions of bi-lateral monopoly reign, the result of the collective bargaining is indeterminate."[1] What this statement amounts to is that, in practice, any bargained wage-rate is indeterminate, and with this statement the present writer is not inclined to disagree. Rather he is inclined to accept the view that determinateness can only be attributed to that distribution of the total income of a community which would obtain under the operation of demand and supply, and the principle of substitution, when these forces had caused an equilibrium to be attained so that, if it were disturbed, and other things remained the same, the forces would operate to restore the equilibrium. It is an equilibrium of this character which is postulated in general theory.

This recognition that bargained wage rates are indeterminate is also a recognition that general theory is not likely to be completely realised in practice. Nevertheless, the possibility that it might be is not ruled out, which implies that, in practice, the complete realisation of general theory is not absolutely incompatible with the existence of collective bargaining. Further, it must be recognised that even if the bargaining yielded wage-rates which would not allow general

[1] Rowe, *ibid.*, p. 197.

theory to be completely realised, it is conceivable, to the extent that the total income would allow, that the rates could be paid. It is not, however, conceivable that if the total income were not sufficiently large in relation to the available supply of labour that all this labour could be employed at the bargained rates—some portion must, necessarily, either be unemployed or employed at lower than the bargained rates. If collective bargaining were exhaustive of all the available employments in a community, so that bargained rates could be rigidly maintained, then, under the conditions just stated, there must be some amount of unemployment. At no time is it to be expected that an employer would engage labour beyond the point at which he conceived that his own remuneration—which, as a result of the bargaining, might be extremely small—would be reduced by his action. Given the bargained rates, demand and supply would operate in relation to these rates until an equilibrium were attained—if one were attainable; but, with a system of bargained rates, there is no guarantee that this position would coincide with that at which the whole of the available supply of labour would be employed. In fact, a position can be conceived when payment of the bargained rates to any supply of labour would prove impossible, and when only adjustment to a more appropriate level could save the situation.

The conclusion that may be drawn from this brief consideration of the second and third points of Mr. Rowe's criticism of existing wage theory, as affected by collective bargaining, is the extreme improbability of this theory being completely realised in practice. But there seems to be no substantial reason for rejecting the theory as an adequate background to actual wage determination and calling for its reconstruction. Rather, if the position arrives in a community when it is seen that, in practice, there is a large divergence from the theory, consequent upon deliberate action, there would seem to be a case, not for a reconstruction of the theory to make it conform with practice, but for a careful consideration of this action in order to be assured that it will attain, and not make impossible of attainment, the ends in view. Some of the modifications of the conditions contemplated in existing general theory which are most likely

to be effected in a community in which collective bargaining plays a large part in wage determination have already been indicated, and require no further mention.

There is, however, another point implicit in Mr. Rowe's criticism which is seen most clearly in connection with the insistence that the pressure of collective bargaining may enable employers to pay the wage rates which this bargaining has enabled labour to secure. If this insistence could at all times be verified in fact, Mr. Rowe might then contend that existing general wage theory is inadequate in that its solutions depend upon much being regarded as constant which is really variable, and in this respect his contention would be supplemented by the criticism of Mr. Dobb. As a detailed examination of Mr. Dobb's views on wages would involve a conflict with ghosts of controversies which one fondly hoped had been laid half a century ago, this examination will not be undertaken. Apparently, Mr. Dobb does not accept the view that the total income of a community is the result of the co-operant activities of the contributing factors, and that the distribution of this income among these factors has to be considered in the light of this fact. The significance of Mr. Dobb's criticism lies in the way he looks at the data of economics. As he sees these data they consist of a mass of variables between all of which relations exist so that a change in one cannot take place without changes in the others. This leads him to the conclusion that as, under these conditions, a state of equilibrium is actually unattainable, no valid solutions are possible. As a similar conclusion is probably applicable in greater or lesser degree to any other data in the universe which are subject to motion, it would appear that, if it is to be accepted in practice, men of science must resign themselves to the fact that their search for knowledge is forever a hopeless quest.

With the conclusion in mind Mr. Dobb proceeds to his criticism of existing wage-theory in which he, also, insists that a wage bargain is indeterminate, though he agrees that it will be contained within certain limits. " The bargain must lie somewhere between the zero indifference curves of the two parties—the curves representing the various rates of exchange at which no net gain at all results from entering into the bargain. Wages, naturally, cannot fall for long below the

level of starvation or exhaustion. Even in a classless society, lacking the adornment of a propertied class, wages could not rise beyond the point where they swallowed the national income minus necessary capital accumulation."[1]

If, in this statement, Mr. Dobb means that wages cannot fall for long below a certain level because there would be no one to receive them he is obviously on firm ground. If, on the other hand, he means—and his general views rather suggest this meaning—that wages cannot fall for long below the level because one of the parties would maintain them above the level in order that there might be a future supply of labour: his ground would seem to be no firmer than when he says that " wages could not rise beyond the point where they swallowed the national income minus capital accumulation," presumably because the other party would be content with wages below the point in order that there might be a future supply of capital. Evidently either of these impossibilities might easily be changed into actuality if the respective parties were sufficiently strong to force wages beyond the required point. The basis of the indifference curves is rationality, but this is not an inviolable basis to irrational men. Apparently, Mr. Dobb is prepared to allow the operation of as much rationality as will ensure that neither labour nor capital will be provided if the parties to the provision do not expect to be at least as well off as a result of their action as they would be if they did not act at all. If, however, rationality is allowed to enter, and provided that it freely operates as regards each individual factor of production in a community, there would appear to be no logical stopping place short of the scheme of distribution indicated in general theory.

Mr. Dobb, however, has not much use for this general theory, except for the purpose of criticism, and, as he presents the theory, it assumes a strange aspect. According to the theory, as he sees it, there are only two parties concerned in distribution—wage earners and capitalists,—the former a property-less class with certain standards of life which they are determined at least to maintain, the latter a propertied class with certain standards which they are determined at least to maintain. The relation of these standards to wage-bargaining is that, in practice, on the one side, they set the

[1] Economic Journal, December, 1929, p. 516.

lower limit to the wages that will be accepted ; on the other side, they set a limit to the extent of the savings of the capitalists. This latter limit is extremely important, for, according to Mr. Dobb, aggregate wages depend, in general, upon the amount of the savings of the capitalists, and, in particular, upon the amount of these savings which they are prepared to expend in the hiring of labour. Thus, supposing the total income which accrues to the capitalists decreases, the marginal utility of their income will rise, and this will react, not in a lowering of their standards, but in a decrease of their savings, with the further reactions that aggregate wages will tend to decline and the marginal utility of the income of wage earners to rise. But the wage earners will be determined to maintain their standards, and, under the circumstances, Mr. Dobb believes that they will probably work harder and so check the decrease in the savings of the capitalists and the decline in their own wages. Evidently, if Mr. Dobb's presentation of general theory is accepted as an explanation of how aggregate wages are determined in the actual world, it is not easy to see how these wages can increase without an increase in the savings of capitalists.

But, as a critic of the theory, Mr. Dobb detects a flaw in it, which he exposes in the statement that " it is at least significant of the bias of economists that when the wage-level is in question it is the customary standards of the propertied class which are treated as the constant factor, and working class standards of life as adaptable at the behest of a purely text-book equilibrium."[1] This treatment of the two standards, Mr. Dobb contends, is wrong. He, reversing the position, insists that it is not the working-class standards which ought to be treated as adaptable, but the standards of the propertied class, for whereas the former standards are largely constituted of necessaries, the latter standards are largely constituted of conventional luxuries. As Mr. Dobb sees no good reason why the desire for conventional luxuries should ever have been allowed to develop, he is led to conclude that if capitalists had received a smaller income in the past the effect might have appeared " not in a slackened rate of saving, but merely in privileged standards of consumption precluded from rapid advancement, remaining on a more

[1] *Ibid.*, p. 516.

modest scale. For instance, there is no warrant for assuming that, if wages had advanced more rapidly over the nineteenth century, our present accumulation of capital would be on a smaller scale'.'[1] This conclusion, of course, is similar to the conclusion that, if, some time last year, Mr. Dobb had written a different article for the ECONOMIC JOURNAL a different article would have appeared in the JOURNAL. However, the conclusion is sufficient to lead Mr. Dobb to suggest that, in the future, the wage bargain should be pushed against the capitalists so that aggregate wages may increase at the expense of a further development of the conventional standards of the capitalists.

Actually, the wage-theory which Mr. Dobb presents for criticism is not existing wage theory but a travesty of it. Existing wage theory as an explanation of the actual situation in a community, similarly organised to our own, is nothing more nor less than a part of the general theory of the distribution of the total income produced by the co-operant factors at work in the community. Being co-operant factors, each factor, in relation to the others, at once represents demand and supply. The notion that there are two rigidly separated parties, one possessing capital, and thus representing the demand for labour, the other not possessing capital, and thus representing the supply of labour, is, at best, no more than an interesting relic of the past, and has no other significance. That wage-bargaining takes place in the community is a fact, but it is not the only bargaining of essentially the same character that takes place there. Moreover, that, in each case of this bargaining, the result is indeterminate may be admitted. With this admission, recognition may be given to the influence which existing and contemplated standards of life may have in the actual determination of wage bargains, but there is left the more fundamental fact that, primarily, these standards are effects, not causes, of the amount of the total income and of its distribution. Nor does this indeterminateness involve the conclusion that, given the use of the scientific device, " other things remaining the same," a valid equilibrium cannot be postulated. Such an equilibrium can

[1] *Ibid.*, p. 515.

be postulated,[1] but, under it, there is no guarantee that the total income of the community will be the largest attainable at the particular time consequent upon each available factor of production being employed in its most appropriate task.

The significance of Mr. Dobb's criticism, like that of Mr. Rowe, is not that either of the critics undermines the essential validity of existing general wage theory; the real significance lies in another direction. In addition to their insistence on the sometimes neglected fact that wage bargains are indeterminate, they compel attention to the further fact that conceptions which are legitimately used by the analytical economist are abstract conceptions which may never be completely realised in practice. The critics see that the data of economics consist of variables, and that, in arriving at solutions, variables have to be treated as constants, and to them the solutions are unsatisfactory.

To this dissatisfaction there are two replies, one general, the other particular. The general reply is that the method is a true scientific method which has to be used in any science whose data are at all similar to those of economics. The particular reply is that, though the data of economics may consist of variables, these variables are of various degrees of stickiness, some of them being so sticky that, in short periods, they can reasonably be regarded as constants. Thus, referring to the above discussion, the organising capacity of employers faced with the necessity of paying higher wages, may reasonably be regarded as constant as compared with the variability of the demand for labour by employers; just as the supply of labour, faced with the necessity of accepting lower wages may reasonably be regarded as constant as compared with the variability of the standards of life of labour.

Nevertheless, these replies may call forth the obvious retort that, if a science is to make progress, variables must be evaluated. To what extent this evaluation can be accomplished is admittedly one of the most important questions which present-day economists have to face.[2] It is important, not only as regards the theory of wages, but as regards many

[1] More exactly, perhaps, a simultaneous series of equilibria which comprehends all the labour that can find employment at the bargained rates.

[2] Perhaps no better indication of the lines on which to proceed can be found than in Rowe, *Wages in the Coal Industry*, and in the book mentioned in this article.

other parts of economic theory. In the meantime, the analytical economist is justified in insisting that the importance of his conceptions, especially his conceptions of equilibria which would be realised in long periods, does not depend upon whether they are actually realised, but upon their value in enabling him to study the operation of the forces that would bring about their realisation. Is it not often by a study of the maybe actually unrealisable that we are able to understand that which is actually realised in the economic world?

G. W. Daniels
(Dean of the Faculty).

THE FUNCTIONS OF A MANCHESTER "SHIPPING MERCHANT."

THE prolonged depression in the cotton industry, and the complaints of many who are engaged in it, have led to much argument and criticism, and to many suggestions by the well intentioned. There has been even a Government Committee and a report, which differs from the unofficial inquiries and suggestions mainly in this : that, whereas each of the various sections of the industry has pointed out the shortcomings of the other sections, the Government report has laid the blame for the bad times on all sections of the trade in varying proportions. No one should despise or ridicule these criticisms, which have been made honestly and patriotically ; but it may be worth while to describe, for the benefit of students of economics and of the cotton trade in particular, the functions of one section, the Shipping Merchants, especially as they have received perhaps more than their share of blame, and as ignorance of their functions has led many fair-minded people to regard them as parasites, fattening on the trade and contributing nothing to its welfare.

The object of this article is to show that the Merchant performs many necessary functions, which, even if he were eliminated or absorbed, would still have to be performed. It will be well known to students of the cotton trade that in this country the industry, for various reasons, has taken a horizontal form, while in America and elsewhere it has inclined more to the vertical. It follows that the functions of the merchant have in this country been undertaken by independent concerns, just as the other processes of the trade (spinning, manufacturing, finishing, packing, transport, etc.) are normally carried on by other independent concerns, which have survived not through organic connections with firms performing the other functions, but on account of the success with which they carry out their own.

The function which is peculiarly the merchant's is the discovery and the satisfaction of demand. To this end the merchant employs specially trained men in various capacities in the different consuming markets of the world. On the Continent of Europe the merchant works as a rule through commission agents of the nationality of the district in which they are working, knowing the customers and discovering their needs. In the Far East the merchant firm frequently employs its own servants, training them for their work, and sending them out at its own expense and paying them salaries. As a merchant usually specialises in certain markets, he chooses the kind of representative (agent or employee) which is most useful for any particular centre of trade. But from time to time the principals of the firm, or their confidential representatives, will also visit the markets to confer with agents and customers, and to discover new outlets and obtain new ideas.

It is a fact, familiar to merchants, that the attempt to discover demand leads frequently to the creation of new demand. For example, the African native would, doubtless, never have conceived a desire for many of the articles which he now buys and enjoys if they had not been suggested and offered to him. It follows that four firms trading in one market will probably secure more than twice the amount of trade that two firms in the same conditions would obtain. Conversely, the combination of two firms catering for the same market, and the consequent decrease in representative and travelling staff, may bring to the combined firm less trade than came to the two firms trading independently and in competition with each other. This argument, however, should not be stressed unduly ; it is probably true to say that in the present depressed state of world markets there are too many competing units, and that the total trade would not be reduced even if the number of firms were less.

The satisfaction of the demand thus discovered and created is effected by co-operation between the representative abroad and the technically trained expert at home. The representative reports on what could be sold ; the expert at home advises on what can be made. This co-operation often results in the production and sale of a better or cheaper article than was at first conceived. It also leads to a better

appreciation by the representative of the difficulties and possibilities of production, and to a better knowledge of the customs and idiosyncrasies of the market on the part of the expert at home, who is, consequently, often able to invent and to have produced saleable articles without any more direct assistance from the representative or buyer abroad.

It is important to emphasise the idiosyncrasies of the different markets of the world, to which reference has just been made, as they are one of the principal reasons why merchants find it necessary as a rule to concentrate their efforts in one market, or in a small selection of markets. These peculiarities refer not only to the actual cloths or yarns supplied, but also to the way in which they are finished, made up, and packed. Any error in any particular, especially in a falling market, may render the goods unsaleable, and the consequent loss falls directly upon the merchant.

Provided in this way with knowledge of the general peculiarities of his market, and with a fairly exact idea of the kind of article which is likely, at any given time, to find buyers, the merchant proceeds to sample. He orders lengths of the cloths, which he has devised, to be woven and finished to his specifications, and sends them out in samples to his agents, representatives, and customers in the markets for which they have been expressly prepared. With the samples go price lists on which are detailed the manner in which the goods will be made-up, packed, and shipped, and the conditions on which they are offered for sale.

All the energy, ingenuity, and expense which have so far been employed have led up to the next stage, the securing of orders. The merchant not only must have prepared his samples skilfully and correctly, and offered the goods represented in a manner and on conditions which are acceptable to the buyers, but he must also fix his prices at least as low as his competitors, both here and abroad. To this end he must know which producers are most suitable as cheap and efficient makers of any given article, and he must be continually in touch with a number of them, in order that, when business is offered to him, he may select the manufacturer who is most competitive. This is a matter which may change from one minute to another : a merchant receiving an order

may find that the manufacturer to whom he intended to entrust the making of the cloth has, in the meantime, sold heavily to a competitor, and is no longer willing to accept such a low price as before. He is also probably unable to prepare and deliver the goods as quickly as before, and the question of delivery is one of the most important conditions of an order, especially in the case of seasonal demand for special cloths. A merchant who fails to deliver the goods of an order to time, even if he is only a day late, runs the risk of having them thrown on his hands, or of having to make a reduction in price which may exceed the whole of the anticipated profit on the transaction. It thus happens, in normal times, that any order received by a merchant goes to the manufacturer or spinner who is in greatest need of work for his looms or spindles, and in this way trade tends to be spread fairly between the different units of production in any section of the industry.

Needless to say, the actual placing of the order, in view not only of the fluctuating positions of the different producers but also of the changes in the price of the raw material, is done by telegraph and telephone, and quite an appreciable proportion of the merchant's expenses is accounted for by cabling charges, which he endeavours to minimise by the use of codes specially constructed for his own needs.

When once an order is placed the merchant becomes, as it were, the trustee of his customer abroad. He must see, for the sake not only of his pocket but even more of his reputation, that what is delivered is the exact article he has sold. He must ensure that the goods are manufactured in time to be finished and packed by the date on which he has contracted to deliver them, and he must know from experience —for even the most careful production is not free from faults— what margin of error can be permitted. He is responsible for seeing that the goods at each stage of production are in accordance with the specification, and, when they are finally delivered in their finished state, he has them packed and shipped. Very often, too, he has them insured, so that his customer has nothing with which to occupy himself until the goods actually arrive in his hands.

In the meantime the merchant has been financing the operations: it is a custom of the Manchester trade that all

deliveries of cloth or of yarn are paid for in cash within a day or two of delivery, and the merchant, accordingly, has to provide the money for them during the time of finishing, packing, and transit. As a rule, also, he sells the goods on credit to his customer abroad, and does not himself receive payment for some months after the goods have left his hands. He thus relieves his suppliers of all financial worry, allowing them to give their undivided attention to the cheap and efficient production of their wares, and at the same time enables his customers to concentrate on disposing of their purchases without paying for them until they receive them. In fact, in many markets the merchant allows his customers sufficient credit to take delivery and to dispose of the goods, even submitting them to some subsequent process of manufacture, before being called upon to pay for them.

It follows that the merchant is thus called upon to bear not only the financial burden of the transaction, but also the risk of non-payment and of dissatisfaction on the part of his customer. His risks are various : most obvious is the solvency of his customer, but there is also the danger of the general collapse of a market, either from overtrading or from causes—*e.g.*, agricultural—not directly connected with his own business. He is also responsible, in the first instance, for all claims and complaints arising out of his deliveries. When such complaints are justified, it is usually possible to recover at any rate part of the loss from the supplier who has been at fault. But many claims for damages, especially in a falling market, are either exaggerated or without justification. In such cases the merchant is usually faced with the alternative of paying the damages out of his own pocket, or of losing a customer ; he generally chooses the former. There is also a wide field in which the merchant can, unwittingly, render himself liable to loss for which he has no redress, for example, when he contracts to deliver the goods duty free or in the currency of the consuming market. In all these contingencies he acts as " shock-absorber " to the producer.

In recent years these risks, financial and other, have increased very considerably as a result of the upsetting of conditions after the war, the general tariff epidemic, and a generally admitted lowering of moral standards. At the

same time a severe increase in competition has not only prevented him from securing greater profits, commensurate with the added risks, but has compelled him to work for an even smaller margin.

It is interesting to contrast the trade of a merchant with certain other businesses, such as agriculture. In the latter a bad crop means, as a rule, enhanced prices which help to counteract the severe effects of the reduced output. With the merchant it is just in the bad times that the competition is most severe and his profit on each individual transaction lowest.

A list of the functions of a merchant would be incomplete without mention of one which, though not essential, is frequently performed by the merchant in order to retain or to extend his trade. It is the aim of every merchant to keep at any rate a number of articles continuously supplied, and, if he is fairly sure of a ready sale, he may find it advisable to buy his supplies in advance of the demand, especially if by choosing a favourable moment, and by purchasing a large quantity, he can secure the goods at an exceptionally cheap price. If he makes a mistake in choosing the moment to buy, and values fall subsequently, he will have to dispose of his supplies at a loss ; whereas, if he buys wisely or fortunately, he may often dispose of them at less than the market price, in order to keep up his reputation as a cheap seller and to assist his customer to maintain a regular flow of the article into the consuming market. While this is a customary state of affairs in the trade in staple articles, it is frequent also in the selling of fancy and seasonal goods : in this case the merchant creates or selects what he considers to be saleable designs, and buys them for stock in order to have a monopoly of the designs, and that he may be able to supply his customers from stock. It may be taken for granted that the advantage accruing to a merchant from the discovery of a saleable new article or design will not outlive the season in which it is first offered for sale : even if it is still fashionable and attractive at a later period it will have been imitated by his competitors, who are even able in certain circumstances to rush out supplies of similar articles to compete with his first purchases.

Enough has been said to show that a merchant can

survive only if he continually retains the confidence of his customers, and continually maintains his own efficiency and inventiveness. New competitors are constantly springing up; very often they are individuals who have been trained in a merchant firm, and then, setting up with borrowed capital, compete with the parent firm by means of the knowledge and experience they have gained from their previous employment. Industrial concerns are protected to some extent by the initial cost of machinery, but an office with the usual accessories is all that a new competitor requires, apart from liquid capital and his own capabilities and knowledge.

In these circumstances a merchant will naturally do what he can to protect his own trade, and, to some extent, he can do this by registering his own trade-marks and designs, and thereby preserving them for his own exclusive use. He must still remain a cheap seller and an efficient supplier: recent experience has shown that merchants have been too apt in the past to rely on their goodwill and trade-marks, and that a cheaper article will quickly oust a dearer, however well known the latter may be.

It will, therefore, be seen that so long as the cotton trade retains its horizontal organisation the merchant must remain as an integral part of the industry. In fact, if he had not justified his existence it is safe to say he would have disappeared already. If, in the course of time, the trade is reorganised on vertical lines the functions of the merchant, as here described, will still have to be performed, and it is arguable that they may even then be performed more cheaply and more efficiently by separate independent units than by a subsidiary department. Apart from this, it must be remembered that usually a merchant will be capable of supplying any article produced in the industry, whereas a vertical combine would probably specialise and produce only a limited range. The Lancashire trade has been built up as a result of its capacity to supply the right article at the right price, and it has been through the organisations of the merchants that the trade has been able to discover what is right in both respects.

LEONARD F. BEHRENS.

THE ORIGIN OF "THE MANCHESTER SCHOOL."

When the Editors of this periodical selected its title they were not unaware of the risk of misapprehension as to their objects, for there are many who do not readily discriminate between a school of economic thought and a school of political practice. But the title seemed good enough to make the risk worth running. Among those who have written commending the choice is Professor Plant, who added the suggestion that someone should enquire into the origin of the phrase, and the changes of value it has undergone since it entered the currency of English speech.

It is, of course, well known that it was applied to the body of men who were associated in the Anti-Corn-Law League, which was brought into being by members of the Manchester Chamber of Commerce in 1839, and which had its headquarters in Manchester. But none of the obvious sources of information, like the *Dictionary of Political Economy*, or the *Encyclopaedia Britannica*, or the standard histories of economic thought, mentions the precise circumstances in which the expression was first used. A somewhat close reading of *Hansard*, for the late 'forties, discloses, however—what one had suspected,—that the term was struck by that master-coiner of political phrases, Benjamin Disraeli.[1]

It was on February 20, 1846, that it was first used. Three weeks earlier Peel had announced his proposals for the removal of the duties on grain and flour, and the Tory ranks were still in bewilderment and disarray. Addressing the Prime Minister, Disraeli said :

> "I want to ask the right hon. Gentleman a very important question—does he believe he can fight hostile tariffs with free imports? That is the point. ('Hear.') 'Hear, hear,' from the disciples of the school of Manchester! A most consistent cheer! They have always maintained they can ;

[1] Since writing this I find that Murray's *New English Dictionary* attributes the phrase to Disraeli, but the first instance cited is from a speech made more than two years after that in which the *cliché* was first cast.

> and if their principles are right, as they believe they are—and as I believe they are not,—I can easily understand that their premises being assumed, they may arrive at that conclusion. . . . But if the right hon. Gentleman does not believe that—if he has not the conviction of the school of Manchester—then he is not justified in offering this measure."

Later, in the same speech, referring to the hope of lower duties in France, Disraeli returned to the theme:

> "Remember these are prospects held out by the Minister, not by Gentlemen of the Manchester School, who believe that they may fight hostile tariffs with free imports."

Thereafter the phrase was frequently on his lips; he used it, for example, on May 6 of the same session; and in a speech in the debate on the Income Tax (March 10, 1848), in which it occurs again and again, he attempted to lay down what he conceived to be the fundamental doctrine of the "School":

> "I am a free-trader, but not a freebooter—hon. Gentlemen opposite are freebooters. The great leaders of the school of Manchester never pretended for a moment that they advocated the principles of regulated competition and reciprocal intercourse; on the contrary, they brought forward new principles expressed in peculiar language. They laid down this principle, that you were to buy in the cheapest and sell in the dearest market. I deny that that is the principle of commerce. Commerce is barter. The principle of buying in the cheapest and selling in the dearest market is the principle of retail trade." [1]

In his reply Mr. Gladstone was at some pains to defend Sir Robert Peel from the charge of having, some time between 1842 and 1846, adopted the doctrines of "the Manchester School of economy": by citations from speeches of the first of these years he was able to show that the principle in question had received the allegiance of his leader long before the victory of the Anti-Corn-Law men. Later, on July 6, 1849,

[1] Compare the following extract from the presidential address of Dr. Herbert Levinstein to the Society of Chemical Industry, July 15, 1930:

"The business of this country, as seen by the Victorian or so-called 'Manchester School' of economics, was to import raw material and food and to export manufactures. . . . Our business, we were told, was to choose the cheapest supplier and sell to the highest bidder. Thus was set up the law that to buy in the cheapest and to sell in the dearest market was the main principle of business.

"Why was it ever incorporated into the British Book of Wisdom? How long could one go on paying too little and selling too dear? It was the principle of the cheap-jack who moved on from fair to fair. It was not the maxim for permanent business."

Peel himself asserted that there was nothing new in the maxim, that it was not peculiar to the Manchester School, but had the sanction of Adam Smith, of Say, and of Hume. And to this Disraeli made reply in words which settle beyond all dispute the authorship of the phrase with which we are concerned :

> " He speaks with a sneer of those who think that the principle of buying in the cheapest and selling in the dearest market is a new principle invented by the Manchester school. I say the Manchester school. I have a right to use that phrase, for I gave them that name. I gave it them with all respect ; I thought it a homage due to their deleterious but well-disciplined doctrines. . . . The right hon. Gentleman mistakes us. We admit fully the comparative antiquity of the dogma : what surprises us is not the comparative antiquity of the dogma, but the recent conversion of the dogmatist."

The speeches of Cobden and Bright were, in fact, eloquent of the stream of classical political economy from which their central theses flowed. But if others insisted on calling them the founders of a school in that study which Cobden had declared to be the highest exercise of the human mind, they would take up the badge and wear it with pride. It was accepted by Bright in a speech to his constituents in May, 1851, when his popularity was at its height :[1]

> " Now, we are called the ' Manchester Party,' and our policy is the ' Manchester Policy,' and this building I suppose is the schoolroom of the ' Manchester School.' I do not repudiate that name at all. I think it is an honour to ourselves, and an honour to you, that by your own intelligence, your sacrifices, your combination, your intrepidity, you have actually marked the impression of your mind and your convictions upon the policy of the greatest Empire of the globe."

And it was used again in a letter to Cobden[2] when the fortunes of the group were at their lowest ebb after the Jingo election of 1857 :

> " In the sudden break-up of the ' School,' of which we have been the chief professors, we may learn how far we have been, and are, ahead of the public opinion of our time. . . . We have taught what is true in our ' School,' but the discipline was a little too severe for the scholars."

[1] G. B. Smith : *Life and Speeches of John Bright*, I., 345-6.
[2] Morley : *Life of Cobden* (14th ed.)., 658-60.

Nor were the assistant lecturers less quick to assume the name. As early as 1850 *The Manchester School of Political Economy* was adopted as the title of a periodical edited by "One who has whistled at the Plough," and published from Vine Cottage, Cheetwood, Manchester. It was the work of Alexander Somerville, whose *Autobiography of a Working Man* (1848) presents a series of vivid pictures of rural and urban labour in the early nineteenth century. The son of an East Lothian carter, Somerville had worked as a cow-herd and a sawyer before enlisting in the Scots Greys in 1832. His regiment was sent to Birmingham at the time of the Reform riots; and as a punishment, so he alleged, for having written a letter to the press declaring that the troops would refuse to use their swords against their fellow-countrymen, he received a hundred stripes of the lash. After two years with the British legion in Spain he returned to England, and in 1842 became a lecturer for the Anti-Corn-Law League. At a later date he quarrelled with Cobden and Bright, and wrote in opposition to their peace policy. In 1858 financial failure led to his emigrating to Canada, where he gained a precarious livelihood as a journalist for many years. He died in a shed in Toronto in 1885 in extreme poverty.

Internal evidence suggests that *The Manchester School of Political Economy* was written entirely by Somerville. This namesake of ours—*absit omen*—seems to have run only to three issues. These contain much advice to young men as to the importance of saving in order to acquire the property qualifying for a county vote; some dubious reasoning directed to the exposure of current economic fallacies; and a serial, the landlord hero of which is strangely designated as Captain Lord Adam Smith. For our present purpose, however, the chief feature of interest in the publication is the attempt to lay down "the utile rule of the Manchester School."

> "In this rule the principles are, first, that mankind do not labour for the love of toil, but that they may enjoy the products of their labour.
>
> "Second, that all obstacles to production or to the commercial exchanges which increase the value of industrial products should be removed by science, if they be natural obstacles, and science can remove them; by law if they be artificial obstacles, law-made or law-protected.

> "Third, that all laws which confer the power of consumption upon classes of persons, or classes of *capital*, without imposing on them or *that capital* the offices of productiveness, or utile public service, are laws which diminish, and do not replenish, the general store of wealth, and that thereby the producers are defrauded of their share of the abundance which their toil, genius, and productive capital bring forth."

This was not an unjust definition of the basis on which Cobden and Bright built up their superstructure of Free Trade, Retrenchment in Finance, International Peace, Reform of the Franchise, and the abolition of such privileges of the landed classes as those embodied in the Game Laws. Their attempt to construct a new England on such foundations made them the object of ferocious attack. To the *Morning Post* of his day Cobden was "the arch-enemy of English industry"; a Tory opponent asserted that he "was properly called the devil, for he was the father of lies." Disraeli spoke of the reformers as un-English; and the man who, by shrewd, hard-headed bargaining obtained for his country the highly advantageous French Treaty, has often been looked upon as a visionary, as one of those invertebrates

> ". . . whose impartial view
> Thy interests, Britain, ranks with thine Peru."

By an even stranger perversion the men who had fought the battle against the exclusive interests of privileged classes and the claims of functionless property were stigmatised, alike by German and British writers, as the apostles of selfishness.

In our own generation Cobdenism is frequently identified with an undiscriminating individualism. In actual fact the life-long parliamentarians who led the school were far from denying the value of Govermental activities. Mr. F. W. Hirst has reminded us that Cobden spent six months of his life in obtaining a municipal charter for Manchester, and that by his advocacy of a system of universal and compulsory education he showed himself more willing than most of his contemporaries to use the sovereign state as an engine of social progress.[1] If, moreover, the members of the Manchester confederacy attached greater weight to individual effort than is fashionable to-day, they did not fail to recognise the part to be played by voluntary association. Was not the career of

[1] *The Manchester School*, xiii.

Cobden, or that of Bright, itself an object-lesson in the power of free co-operation? Was not the Anti-Corn-Law League described as a joint-stock company in agitation?

It is true that the members of the school showed less goodwill to the aspirations of trade unionism than most of us might wish. They were mistaken, we should all agree, in their opposition to the application of the Factory Acts to adult labour. There is, perhaps, just a little more in belonging to the British Empire, or the British Commonwealth of Nations, than they saw—though the transition from an empire to a commonwealth represents, in fact, the triumph of their principles.

Cobden and Bright were popularisers rather than originators of ideas. They had neither the data nor the instruments of precision that lie to the hand of the modern economist. Political philosophy has advanced since their day. But, at a time when their reputation is in almost total eclipse, it is fitting in members of a University which has its Cobden Lectureship and its Cobden Prizes, to stress their achievements rather than their limitations. Cobden and his fellows succeeded in bringing to the consciousness of ordinary men the essential elements in the teaching of Adam Smith. And from their fundamental attitude to economic life; from their belief in the existence of an economic community the bounds of which do not march with those of the political community; from their distrust of "statutes by which Governments have pretended to teach merchants how to trade and manufacturers how to work"; from their emphasis on the distinction between national power and national prosperity; from their international outlook—our generation no less than theirs has lessons to learn.

If a school of thought really exists at Manchester to-day, we do well to insist that it is a school of method and not of dogma, of research and not of conclusions. But the most rigidly scientific of us has his prepossessions; and if the title of this journal should lead some simple reader to confuse the school of to-day with the great school of the 'forties, some at least of us here will not loudly protest our freedom from contagion.

T. S. Ashton.

THE FOOD COUNCIL AND ITS WORK.

INVESTIGATION of the so-called " margin " between producers' prices and consumers' prices of the chief foodstuffs has been a prominent subject for public inquiry since 1921 ; it is associated with the heritage of war control methods affecting wholesalers and retailers, and with the relations between the fall in wholesale and the fall in retail prices which has been a feature of recent years. The Departmental Committee on the Distribution and Prices of Agricultural Produce, commonly known as the " Linlithgow Committee," examined the subject in 1922 and 1923, covering those commodities which constituted the main output of British agriculture, milk and milk products, fruit and vegetables, meat, poultry, eggs, cereals, flour and bread. The Royal Commission on Food Prices was appointed in November, 1924, and issued a first report in 1925, dealing with wheat, flour, bread, and meat ; it recommended the establishment of a Food Council, and the Prime Minister, Mr. Baldwin, accepting this proposal, set up the body in July, 1925.

In view of the promotion by the present Government of a " Consumers' Council Bill," which deals in part with the same field, it may be of interest to survey the work and difficulties of the present Food Council.

The view expressed by the Royal Commission on Food Prices was that they were " not prepared to recommend any novel experiments in trading as being likely to reduce food prices," but they did favour some effective supervision of such prices. They further stated that *ad hoc* committees and commissions were not a satisfactory method of dealing with the problem, no steady improvement or lasting results would be achieved by any body, however competent its personnel, which assembles, hears evidence for a few hurried weeks or months, presents a report, and then disperses.[1]

They also took the view that periodic disturbances of the principal food trades to ascertain the relation between prices

[1] c.f. pp. 135, 136 of Cmd 2390 of 1925. First Report.

and profits were unsatisfactory. Some permanent body was required to study the situation of the supplies and prices of the main food products, and to keep the public fully informed of the trend of prices and of the causes for change. The Royal Commission felt that such a body should have power in reserve to obtain returns from individual traders and to verify them in such way as it may consider necessary, although they did not suggest the publication of such information without agreement.

The Food Council consisting of twelve members was, however, given no power to compel traders to supply information; the Prime Minister stated that if experience showed that such powers were needed, Parliament would be asked to grant them. There is also no power to fix prices, and any recommendation by the Council as to the price to be charged depends for its effect upon publicity and the pressure of public opinion on the one hand, and on the other upon how far the Council has fairly gauged the business conditions of the trade. For two and a half to three years, that is, until May, 1928, the Council worked with information supplied voluntarily by associations and individual traders; but it then reported that it could not obtain sufficient data for its purposes, and asked the President of the Board of Trade to strengthen its powers in this direction. The Prime Minister at once stated that all the support required would be forthcoming, and that unless traders who had failed to co-operate supplied the requisite material within a reasonable period, the Government proposed to ask Parliament to grant the necessary powers to the Council by means of a Resolution under the Tribunals of Enquiry (Evidence) Act, 1921.

A brief survey may be made of the work of the Council. The body does not consist of members with expert knowledge of the distributive trades, but it includes men with wide business experience and representatives of consumers' interests. Up to July, 1930, it had held eighty three meetings, examined over 200 witnesses, and, with a small staff, had conducted negotiations with representative traders' organisations for the provision of information based upon trading and financial accounts.[1] The two general fields of enquiry

[1] The members receive no remuneration, and the total cost, including

were to maintain a permanent survey over supplies and prices of foodstuffs of general consumption, and to investigate special complaints. The Council has made sixteen reports within these fields to the President of the Board of Trade. The subjects covered were (i) Bread and Flour, six reports, (ii) Short Weight and Measure, (iii) Wholesale Tea Prices, (iv) Fish Prices, (v) Retail Meat Trade, two reports, (vi) Retail Milk Prices, three reports, and (vii) Market Garden Produce.

The Short Weight and Measure Report (1926) was the basis of the Sale of Food (Weights and Measures) Act, 1926. By this enactment the giving of short weight or measure is made a penal offence, and certain articles of food are required to be sold in fixed quantities and by net weight. This legislation may be ranked as a useful piece of work both for consumers and traders, as it cut out an unhealthy form of competition which was based on lower prices for short measure. Under the previous law it had been extremely difficult ever to prosecute successfully the giver of short measure in the absence of an invoice.

The memoranda dealing with bread and flour, retail meat prices, and retail milk prices are narrower in their scope, and approach more contentious subjects. It may be said that the Council devoted itself in the case of bread and flour to an attempt to set up some reasoned relationship between flour prices and bread prices, so that, in a period of falling prices, the time lag might be kept as slight as possible. To this end a scale was recommended by the Council connecting the price of standard straight-run flour per sack of 280 pounds with the price per quartern loaf retail ; the link was that any variation of 4s. per sack would mean a variation of ½d. per four-pound loaf. There was the difficulty that the so-called " official price " of flour was not an actual price at which bakers bought their flour, but was considered somewhat higher than the average figure. In view of this the Council urged that the " official price " should cease to be published. The scale operated for the years 1925-29 in the sense that much bread was sold below the price recommended, but in 1930 the baking trade organisations found that the scale was unsatisfactory, and altered it so that while formerly an 8d. loaf corresponded to a flour price of 32s., and an 8½d. loaf

to a flour price of 36s., the new level for an 8d. loaf was 30s. and for an 8½d. loaf 34s. The Food Council condemned the baking trade organisations for changing this scale without consultation, and stated that it had no information as to the causes leading to this change.

In the case of meat prices, the Council devoted itself to two main points ; the first was to seek the discontinuance of the Smithfield retail price lists, which are merely estimates, and further, to suggest that retail butchers should exhibit lists showing the retail prices of, at least, the more important cuts. It enquired also into the profits earned by retail butchers, and a sample of 152 firms doing a business of £19,000,000 per annum was collected ; the accounts did not, however, cover the same period, although all fell between 1925 and 1928. The conclusions drawn were that butchers had improved their financial status more than proportionately since pre-war days ; that butchers had benefited from falling wholesale prices ; and that the number of butchers had begun to increase, so that keener competition might be expected.

The three milk price reports were concerned mainly with the seasonal price fluctuations—*i.e.*, whether in April and September milk should be supplied at the summer or winter prices. On this point the dairy trade, too, in 1928-29 did not see its way to agree to the view of the Council.

The issues of public importance which arise from the five years' work of the Food Council may be brought together in two points : (i) how far the power of obtaining information is adequate to make trade surveys of the character desired, and (ii) how far any price controlling or fixing power can be attached to such a body.

While the Food Council obtained the support of many of the large traders' organisations, particularly in London, it is obvious from the published statements that whenever information regarding the trading and financial position of individual firms or companies was sought, serious difficulty was met with and, in fact, the returns were inadequate to allow any body to form a reasonable judgment as to the movement of prices and profits in a trade. The samples are partial, and may represent certain localities unduly ; further, it tends to be certain firms which are always ready to give information, and there is a tendency for a distorted view of

the trade to be given by examination of their profits; in any case the sample ceases to be either a random or a carefully chosen selection of firms. The Council itself quotes cases where less than half of the firms who were asked for information provided it, and in one extreme case only three out of fifty-eight firms supplied the accounts asked for. It is not difficult to explain this paucity of returns; associations cannot compel their members to reveal their private accounts, and it is doubtful whether their membership would tolerate any undue insistence upon this matter; nor is it very obvious to a trader why he should provide an account of his trading and financial position to a body which, in his opinion, is not designed to give him any constructive help in meeting the problems of his business, and concentrates entirely upon beating down his prices in the supposed interests of the consumer, without accepting any responsibility for the loss which may be involved.

If it be assumed, however, that the public interest demands a continuous survey of the prices and profits of food traders, it would seem obvious that there is less danger both for traders and consumers if the information obtained is both adequate and well tested than if it is partial and insufficient.

The action of the Council in endorsing certain prices for bread and milk in London as reasonable, and in registering objections to price increases, raises a different problem from that of obtaining information about trade profits and giving publicity to the results of such inquiries. It may be urged that this amounted to indirect price control or price fixing, although the Council had no power of this kind, and the slender basis of its information would have rendered it undesirable that it should attempt such work.

It is to be noted that Clause 5 of the new Consumers' Council Bill gives power to the Board of Trade to fix prices and charges if it is reported that a price is "excessive." The implications of price fixing do not fall within the scope of this article, but it may be suggested that public action of this kind is probably one of the least effective safeguards which the consumer has against undue costliness of the marketing machine, since it can only attempt to strike at

small exceptional profits of traders, and can make little contribution to the improvement of trade organisation.

The " Linlithgow Committee " took the view that with the passing of the war control spirit of restriction from the wholesale and retail trade, competition and substitution would become strong forces again and the dangers of stagnation would be slight ; much could be said in favour of this view, as the retail trade has shown notable changes in its character since 1920. It is also a well-known feature of recent development that producers, particularly manufacturers, have attempted to control the cost of marketing their goods, although British agricultural producers have not developed such schemes.

The experience of the present Food Council suggests that if it is still desired to pick out certain groups of food traders and to provide continuous surveys of supplies, prices, and profits, then it will be necessary to give powers to obtain information from associations and individual firms if a reasonably adequate picture of business conditions is to be obtained. The work of the Council represents a new departure in peace time policy in so far as a number of food trades where substitution and competition are relatively strong have been made the subject of public supervision, while the development of combination and practices in restraint of trade, which are known to be widespread in other fields, are not under such supervision.

It seems doubtful if the price recommendation or price endorsement policy leads anywhere from the standpoint of the public interest ; no public body can do less than endorse some interpretation of normal profit for the traders who serve the public, nor can it risk a policy which lowers quality with price and slackens incentives to technical progress. In any case price fixing by a public body raises serious questions of the interconnections of prices. It is, however, of value to have a body which gives the public confidence that price margins are subject to examination, and that some explanation can be given of variations which are not arbitrary but the outcome of the play of economic forces. Such a body can also do something to remove misunderstanding such as has arisen recently through entirely invalid comparisons of published wholesale index numbers with

retail index numbers. If it be asked, however, along what lines then can the retail and wholesale trades make their contribution to economic progress, it is suggested that in these food trades there is little hope in this form of public supervision, but a greater chance in the influence of competition and substitution and in the development of a constructive spirit towards the problems of sales and management in the trades themselves.

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THE ECONOMICS OF OIL.

THE petroleum industry is well worth studying for the student of economics, who is too often tempted by his text-books always to seek the raw material for economic theories among the old-established industries, thereby neglecting the new at the risk of drawing quite misleading conclusions from his data, and assuming that the conditions, which at some time in the past determined the distribution and general organisation of one of the older industries, are to-day equally valid. Petroleum is the basis of a new industry which does not date back as an organised enterprise at all beyond the middle of the nineteenth century, and which, in its present form, is little more than a generation old. Its importance to-day arises, of course, from the fact that modern forms of transport working by means of the internal combustion engine are all dependent on petroleum products for their fuel. Motor-vehicles, motor-boats, aeroplanes, airships, ocean-going shipping with Diesel engines or oil-fired boilers, and Diesel-engined railway locomotives would all be impossible in their present forms without petroleum ; even the roads on which the motor-vehicles run are for the most part constructed with bitumen, a petroleum derivative.

The oil industry is remarkable for a number of reasons ; in the first place it is an industry of enormously large units ; in the United States, which produces 70 per cent. of the world's petroleum, there are the various loosely associated Standard Oil Companies, and a very few other large companies such as the Sinclair, Gulf, and Texas interests. Outside the United States are the Shell group (which also has extensive American interests), the Anglo-Persian group, and the Russian Soviet industry. All these groups, with the exception of the last, are super-national, having interests in many countries as producers and refiners, and over the greater part of the world as distributors. Secondly, the oil industry is probably the best example in the world of vertical combination. The groups which control the great bulk of the world's

trade consist of affiliated companies engaged in every process of the business, exploring and prospecting, drilling and refining, transportation, both by land and sea, and storage, together with wholesale and, to some extent, retail distribution. Thirdly, the problems of production and refining are simple compared with those of marketing. Petroleum products include cleaning spirit, motor spirit, white spirit or turpentine substitute, kerosene or lamp oil, medicinal oils, weed-killers, gas oil, Diesel oil, fuel oil, lubricating oils, paraffin wax, and bitumen ; elaborate selling organisations are necessary, capable of finding markets for all these very varied commodities. There is a limited amount of horizontal combination between the marketing subsidiaries of the big groups in particular countries, including the representatives of the groups in Great Britain ; this mainly takes the form of agreements as to prices, the conditions under which the trade shall be carried on, and allocation of markets ; nevertheless, competition between the groups is very keen, and expenditure on advertising in consequence enormous.

The chief weakness inherent in the oil industry is precisely the same as that which afflicts gold-mining. Prospecting and production are highly speculative, and offer immense rewards for the successful few and very meagre returns for the many. Man is incurably optimistic, and always rates his chance of being among the successful ones much more highly than an actuary would, with the consequence that oil production, like gold production, attracts a considerably greater amount of labour, brains, and capital than is economically justified by the prospects. There is thus a perpetual tendency towards over-production of crude oil, a problem of which the solution is still awaited. It is hoped that the luck of every individual enterprise and every company will be so good that, in spite of over-production and low prices, it will be amongst the successful few, and produce sufficiently cheaply to net enormous profits. None of the producers enjoying good luck are willing to be a party to any scheme for restricting production, while such schemes are enormously popular with the unsuccessful. In spite of the large share of the total production in the hands of the groups, there are still enough independent producers who, normally, but not necessarily, sell their output to the groups, to wreck any scheme for restricting

production which does not satisfy them. A further difficulty is that oil is so easily transportable a commodity that a scheme covering one country alone would be useless. If, for instance, the United States were to restrict production on their own sufficiently for prices to harden appreciably in the American market, the country would at once be flooded by cheap oil brought from Venezuela, Colombia, and Mexico.

In spite of the peculiarities of the industry which tend to favour over-production, it is, of course, necessary in the long run for the producing companies to show a certain return on investments in order to attract new capital and continue operation. The crude oil must over a period yield enough to cover in the main its cost of production, after discounting the speculative element ; this is a figure which can easily be determined for crude oil, but which it is quite impossible to give for the various products refined from it. The principle is a common one ; if a number of articles are necessarily produced in conjunction with each other, as, for instance, beef, hides, and horn, it is easy to give the cost of production of the total, but impossible to allocate it between the different items. The identical problem arises in railway transport, where it is impossible to charge for cost of service, since nobody knows what the cost of service is, and the same solution is found the most workable, viz., to charge " what the traffic will bear," and, by means of exploration of markets, intensive advertising, and all the paraphernalia of high-pressure salesmanship, ensure that some market shall be found for all products and the total yield shall be sufficient to cover the total cost of production. Thus, certain lubricating oils for which there is a keen demand and little competition may sell at several shillings a gallon, while fuel oil, which must be competitive with coal in price, is given away for 3½d. a gallon.

Apart from the question of substitutes and the necessity of offering an attractive price to potential customers, as, for instance, for white spirit against turpentine, fuel oil against coal, or bitumen against tar, the variation in the prices at which the various petroleum products sell depends primarily on changes in demand. The advance of petroleum technology has made it possible by what is known as " cracking " (heating product under pressure, and so splitting into heavier

and lighter fractions), to increase to some extent the yield of one product—*e.g.*, motor spirit from the crude at the expense of, say, gas oil,—but the possibilities in this direction are strictly limited, and the general position is that ultimately an increase in the demand for one product, such as motor spirit, means an increase in the total production of crude, and a consequent increase in the supply of the other products, such as fuel oil, without any corresponding increase in demand. It may thus happen that the price of motor spirit may rise, in consequence of the increased demand, while the price of all other petroleum products falls, on account of the increased supply. An increased supply of comparatively unsaleable products must be remedied by more intensive salesmanship and research into the possibility of opening up new markets for them.

There are, in addition, very interesting long-period changes in demand. Towards the end of the nineteenth century, when large concerns were making their appearance in the oil trade, the demand was for kerosene for lamps and stoves, and to a lesser extent for lubricating oil, as mineral oil was gradually replacing vegetable and animal oil for purposes of lubrication. Benzine, the fraction which distils off first when crude oil is refined, was considered useless and thrown away. To-day, benzine, or petrol, as it is more often called, is by far the most important petroleum product economically, while kerosene has been declining until recently, when a new market for it has been opened-up in motor-boats, agricultural machinery, stationary motors of various kinds, and also in the washing of cars and machinery. The most important problem at the present time is the much greater rapidity of the increase in the demand for motor spirit than for other petroleum products. This, in the way explained, has glutted the world's markets with fuel oil and Diesel oil, and new markets for these are being opened up, especially in the direction of domestic central heating, plants using fuel oil, and Diesel-engined road vehicles.

Apart from the United States, which is both by far the largest producer and consumer of petroleum, the greater part of the world's supplies are produced in somewhat backward and undeveloped countries and consumed in the more industrialised parts of the world. This is partly the explanation

of the unpleasant political associations connected by many people with oil. Oil is essential for naval warfare and for the transport of troops, supplies, and munitions in land warfare, and, of course, it is also necessary for industry. The Western European powers in particular, as they include no oil-fields of any importance in their own territories, are tempted to try to make their supplies secure in time of emergency by exercising undue political influence on the producing countries. As an alternative they have to encourage the production of home-made substitutes made from coal, wood, or other local products. This is being done, especially in France and Germany, from motives of national defence; none of the substitutes appear yet, however, to be justified on economic grounds.

The distribution of refineries is also determined to a large extent by political considerations. If only economic considerations were taken into account, refineries would be situated at the seaport nearest to the oilfield so that the crude could be pumped through pipe-lines to the refinery, refined in bulk, and pumped again into tankers for transport to the markets. In many cases, and especially in the United States, this is actually done. Sometimes, however, the country in which the oilfield is situated attempts to impose undue taxation on the refinery, and restrictions as to the nationality of the persons employed, with the result that the plant is removed to some neighbouring and more friendly territory at a distance from the oilfield. More often the governments of the oil-consuming countries use their influence, either by means of discriminating duties or simply by the placing of the business they control, to encourage the importation of crude oil and the establishment of refineries within their frontiers.

The system of distribution adopted by the larger distributors, which does not, in general, concern itself with the retailing of petrol, is efficient and successful in so far as it covers effectively the whole of a country, but it has its disadvantages in any market which is open to free competition, in so far as the larger concerns are prepared to supply anybody qualified to buy according to the rules of the trade at a fixed rate no matter how small his trade or where his premises be situated. A small concern, possibly buying rather inferior

petrol at a slightly lower price than the larger distributor, may be able to save in distribution costs if it picks its trade carefully and so undercuts the larger concern. Very substantial economies in distribution can be effected by an undertaking which refuses to supply difficultly situated and small customers, and confines itself to large garages and lorry and bus operators. As the small undercutting concerns in no sense offer a national system of distribution, they are dubbed " Pirates " by the larger " national " distributors.

Various methods have been used for cutting-out the " Pirates " by the large oil groups, with varying success. The most common is the division of an area into zones, and the institution of a lower price in those zones where " Pirate " competition is most severe. In addition to this, various systems of exclusive buyers' rebates, both spot and deferred, have been elaborated and tried out, the usual system being to allow a rebate on the wholesale price of motor spirit to all dealers who do not sell from pumps any of the " Pirate " brands.

In spite of the progressive spirit of the oil industry and its comparatively efficient organisation there is still a good deal to be done in the way of rationalisation, and many difficulties in the way of accomplishing it, since the oil groups are super-national. There is, first of all, the necessity for the industry to control its production and put a stop to over-production ; secondly, the need for the scientific working of oilfields, which is now made difficult, especially in the United States, by the multiplicity of landowners ; thirdly, there is an enormous waste in transport costs, because the markets of the world are by no means always supplied from the nearest oilfield, since the group distributing may not control any adjacent oilfield, whereas rival groups do. Lastly, there is costly duplication of refineries and distributing equipment in the shape of installations, depôts, road wagons, and rail tank cars. The international ramifications of the industry make the problem of rationalisation and co-ordination very difficult. Nationalisation has been tried, but where, as in Spain, the Government nationalising the industry does not also control the sources of production within its own territory, the result has been disappointing. The boundaries of the industry are so much wider than those of the political state

that nationalisation is impracticable, and there is no international body as yet capable of controlling it. The best solution appears to be for the groups to co-operate more closely with each other, a result which might be much facilitated by the exchange of blocks of shares. In distribution co-operation could be brought about by the pooling of equipment and the amalgamation of distributing subsidiaries, a result which has already been achieved by the Shell and Anglo-Persian-Burmah groups throughout most of Africa and the Near and Middle East.

CHRISTOPHER T. BRUNNER.

REVIEWS.

Rationalisation and Unemployment. By J. A. Hobson. (George Allen and Unwin. Pp. 126. 3s. 6d.)

"Profits and higher wages . . . arise when the economic system . . . produces more goods than are required for its maintenance. It is the causation, distribution, and utilisation of this 'surplus', the fund of progress, that furnish the core of our economic problem."

Mr. Hobson asks again in this book whether we are utilising this surplus to the best advantage. The reasons for his doubts are well known. His theory of under-consumption is forcibly stated at a time when, apparently, the American business man is, at last, being assailed by doubts as to the economic efficacy of high wages to bolster up a market. Surplus production, Mr. Hobson argues, can be devoted to either of two ends: it can be used to increase production in the future—to produce capital equipment,—or it can be distributed amongst society to increase the standard of living, either through augmented real incomes or an increase in leisure. This choice is not a new one; every economist is aware of it, and also, as Mr. Hobson apparently is, of the impossibility of independent choice by a country which is economically international. But Mr. Hobson is not only prepared to assert that the choice of the former results in a loss of vital income, but also that it is fundamentally unsound. The saving of this surplus is likely to result in oversaving, because, at the very time it is resulting in additional equipment, it is also reducing the purchasing power of the market. The saving of the surplus and unemployment are cause and effect. It should be pointed out that Mr. Hobson does not explain why the saving of the surplus should bring about its ill-effects so suddenly, and many will attribute them to less simple causes. Moreover, just as the ground is so carefully prepared for a recommendation of higher wages, Mr. Hobson realises that our insularity is not reflected in our economic position, and he recommends that the surplus

be drained by taxation and used for an authoritarian widening of the market through social grants.

How far is rationalisation going to affect this position? It must be said that Mr. Hobson is not very clear as to what rationalisation is; but in his view it takes, apparently, a hybrid form composed of mass production, labour saving, and cartelisation. Rationalisation has, therefore, a tendency to aggravate the trouble by helping to increase profits and decrease aggregate wages. But though rationalisation as an individualist measure is an aggravation, properly understood and socially controlled it carries within it the seed of solution. By decreasing the socially vital cost of economic maintenance it leaves a possibility for increased leisure and the art of workmanship. When necessary things are more easily come by, then room for individual demand is obtained. Luxuries and comforts, Mr. Hobson thinks, are not so amenable to mass production, and the demand for luxuries, being diversified through individual tastes, is likely to be a demand for individual production and craftsmanship.

Rationalisation promises, therefore, under socially appropriate control, an increase in vital income and a decrease in vital costs. But before this promise is likely to emerge into reality " this procedure requires to be brought under a social control . . . which must be international, so as to correspond with the area of the economic system itself."

J. S.

Economic Aspects of Sovereignty. By R. G. HAWTREY. (Longmans, Green. Pp. 162. 9s.)

MR. HAWTREY'S new book leaves one with a vague sense of disappointment, as, apparently, must all books dealing with the International Anarchy. One can point out with more or less of sanity the flaws and irrationalities of the actual system; one can sigh for a supra-national control; but one cannot resolve the problem of the sanctions of the supra-national power. The great merit of Mr. Hawtrey is that he leads us with a calm precision and efficiency to the brink of the chasm.

The economist will find very little new in the first part of the book; but for the general reader it should be extremely valuable, as it will crystallise what is for many a vague

impression that economic power and political power are connected into a definite statement of relationship. The chapter on "Communications and Population," in this section, is perhaps the best chapter in the book, admirable for its sane and lucid accuracy. The second part is concerned mainly with the familiar triangle of power, prestige, and war; a triangle made far more real to us by the fact that we have a ponderable politico-economic theory to deal with, and not the purely political "power" and "prestige" abstractions.

We feel that there is more to say about the origins of particular wars than Mr. Hawtrey has said; but with his general position we must agree. Indeed, throughout the book we are inclined to accept the trend of Mr. Hawtrey's thought, but to niggle over minor points of fact or theory, of no great importance. Briefly, this is a book for the expert who wishes to relax, and for the general reader who wants to know how economic power connects with politics and war.

E. R.

The Problem of Oil. By CHRISTOPHER T. BRUNNER. (Benn, Pp. 231. 15s.)

THIS book should be read as a further study in the Problem of Motor Transport—the title of Mr. Brunner's previous book. It is a survey of the development of the British oil industry, and an account of its attempts to maintain and strengthen its internal organisation in face of the rapid changes of the last ten years. Mr. Brunner has had special opportunities for studying the problem on which he writes, and his book is the first authoritative one on the subject.

In the first chapters the development of the oil industry in Great Britain is compared with the expansion of the industry in other countries of the world, and this serves as a valuable introduction. Mr. Brunner describes in detail the present organisation and price policy of the distributing companies, at first in general, and then in turn for the sale of benzine, kerosene, and each of the oil products. He places particular stress on the changes in the method of delivery and price control, and, in his concluding chapter, he makes this ability of the companies to change their methods and

to adapt themselves readily to new conditions his main argument for rejecting any form of nationalisation.

Mr. Brunner writes throughout in a convincing style, but is at his best in argument. In description, the detailed treatment of certain sections is apt to leave a general reader confused, and in consequence to make the general conclusions rather bare. Only once can Mr. Brunner be accused of leaving the facts half told. In the account of the price war between the R.O.P. and the other companies, he writes (p. 25), "shortly afterwards an agreement was entered into with the R.O.P. by the Anglo-American Oil Company as representing the parties to the other agreements, and prices were put up at once to an economic level, as all companies had been selling this spirit at a loss for some months."

H. C.

The Legal History of Trade Unionism. By R. Y. Hedges and Allan Winterbottom. (Longmans, Green. Pp. xix × 170. 7s. 6d. net.)

This work fills a distinct gap, and the fact that the gap remained until the publication of this book during the present year may be taken as evidence of the difficulty of the task which the authors undertook. Hitherto, our reading of published accounts of trade union history has left us always with the view that on the legal side the subject has been unsatisfactorily treated. Most authors have been inadequately equipped for an understanding of that which forms probably the most technical and most complicated branch of English legal history, with the result that even the best of them have made serious mistakes, and the generality of them have ascribed to prejudice many decisions which were the result of ordinary rules of interpretation. If this work did nothing more than give the material for correcting such treatment of the subject, it would be very welcome. It is easy to ascribe to prejudice the decisions of some of the judges of the eighteenth and nineteenth centuries, and it is equally easy to select *obiter dicta* from their judgments to support the view that they were actuated by enmity to the new movement. But many historians of the trade union movement have failed to realise that *obiter dicta* do not make law, and that, no matter what latitude a judge may allow

himself in the expression of private opinions, he is always bound in formulating his *ratio decidendi* by rules of interpretation which are more nearly immutable than the principles of most sciences. Our reading of Part 1 of this volume leaves us with the impression that the early trade unions produced a form of organisation which the common law had never contemplated, so that judges who had to consider their legal position did, what in fact most lawyers would do, and admitted the legality of trade unions only so far as they could be shown to conform to clearly established legal principles. That, no doubt, was unfortunate for the trade unions, but it was a misfortune that other organisations suffered as well. We do not mean that the authors formulate the view which we have here expressed. They leave the reader to draw his own conclusions, and, in fact, one of the merits of their work consists in their attitude of complete detachment. They appear to have considered every possible source of legal information, and they estimate the validity of conflicting legal views in a manner which is strictly judicial. And to the layman, as well as to the lawyer, the value of the work is increased by Part 2 of the volume, in which the authors summarise with commendable clarity the present legal position of trade unions, and show, better we think than has been shown before, how the present state of the subject is conditioned by its earlier history. The book is one which no serious student of trade unionism can afford to ignore, and those who desire to estimate the effect of proposed amendments of the law will find in it all the material for their purpose. R. A. E.

The Public Finances of Post-War France. By ROBERT MURRAY HAIG. (Columbia University Press. Pp. 463.)

No one could rise from a reading of Professor Haig's work without a feeling of amazement at the intricacies of the French financial system, and of admiration for the skill with which he threads his way through its labyrinths. His task was, indeed, formidable. The French Budget is concerned not, like ours, with cash receipts and disbursements, but with the sum of the credits and debits authorised within the accounting period. Since large blocks of expenditure and bad debts have not yet been assigned to particular Budgets,

it is not possible to trace in detail the growth of indebtedness or even to pass judgment on the programmes of particular Ministers of Finance.

It is not, however, merely the form of the French accounts that makes the path of the investigator a stony one. France has nothing comparable to the British Treasury, and there is much slackness and delay in the publication of statistics. The falsifying of the accounts of the Bank of France at the instance of the Government in 1925 is the most serious count in the indictment that a critic less friendly than Professor Haig might easily have framed. But only less culpable are the arithmetical errors in the official returns, by one of which the internal debt was put at a figure nearly thirty per cent. below the true one. That it should have been left to a foreigner to reveal misstatements like this argues not only inefficiency of audit, but also an almost incredible lethargy of public opinion.

Tribute is paid to the courage with which the French imposed an income tax in the middle of the war; full justice is done to the effort by which the franc was stabilised; and some striking examples are used to show how much more heavily taxation rests on the French than on the American citizen.

It was not within the author's province to refer to the finances of Britain. But an English reviewer cannot resist the temptation to make a few broad comparisons. Expressed in pre-war values, the sums paid in taxation by Frenchmen in 1926 were only 35 per cent. above—and even in 1927 only 70 per cent. above—those paid in 1913. In Britain the corresponding increase for 1925-6 was 160 per cent. National taxation per head of population in 1926 was 932 francs, or about £7 10s. in France; in Britain it was £14 14s. 5d. The proportion of revenue raised by indirect taxes is much higher in France than here. Lavish exemptions from income tax are given to bondholders; the tax paid in the preceding year may be deducted in computing assessable income; and evasion also seriously reduces the yield of direct taxes. Some years ago in one agricultural district of France the only man who paid income tax was the unfortunate collector himself, for whom, presumably, escape was impossible We

are assured, however, that since the reorganisation of 1926-7 evasion has been far less common.

In 1926 France had a debt, measured in pre-war francs, of 80 billions, equivalent to about £3,200 millions. This is approximately two and a half times the debt of 1913. The corresponding figure of British indebtedness (again reduced to the standard of 1913) was £5,060 millions—about eight times the pre-war figure.

Professor Haig's handsome volume is the first of a series that is destined to widen vastly the orbit of our knowledge of post-war France. It is a scholarly work, packed with statistics, and yet eminently readable. T. S. A.

Economic Trends in Soviet Russia. By A. YUGOFF. Translated by E. and C. PAUL. (Allen and Unwin. Pp. 349. 12s. 6d.)

GENERALLY speaking, research on subjects of political controversy is apt to be done by those who have an axe to grind, and results lose in temperateness what they gain in virility. Moreover, criticism of such research is liable to become tainted by intemperateness, because either of conflict or concordance of bias in research and critic, or because, in dealing with practical research, preconceived ideas masquerading as knowledge are not a fundamental basis on which to build. In reviewing this work both these avenues to error have to be guarded against, and its value will be best assessed, therefore, on two counts—first, in regard to its temperateness, and, second, in regard to its informativeness to the insular.

Yugoff is in sympathy with those who wish to see the State play a more important rôle in the economic system, but he is of the opinion that the rôle must be assumed gradually, and its importance built up empirically. With Marxian sympathy he sees in private enterprises not only injustice, but necessary stepping-stones which must one by one be submerged by State activity as and when circumstances permit. In his view, therefore, the economic revolution following the political revolution in Russia was a mistake, because Russia, a country backward in capitalist initiative, was of all European countries one of the least likely successfully to operate a State system.

Yugoff attempts to prove this thesis by reference to fact, and to this end has collected some admirable material, but the statistical part of his work is deficient in some respects. Unfortunately, it is not brought up to date, for none of the data is brought past 1927-28, and some of his illustrations, especially that referring to currency and finance, are lacking in lucidity and argument, and are without the detail necessary for sound judgment. Broadly, Yugoff illustrates the vacillation taking place between capitalism and communism, and shows how, up to the commencement of the Five Year plan, the State, overburdened with economic functions, had allowed the re-encroachment of private enterprise, through the action of both the new bourgeoise and concessionaires.

J. S.

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OVERSEAS TRADE OF THE UNITED KINGDOM IN RECENT YEARS AS COMPARED WITH 1913.

As time goes on it becomes more difficult, though not yet impossible, to compare the existing position of the overseas trade of the United Kingdom with the pre-war position. Such a comparison must be interesting, maybe instructive, and the means are available in the annual reviews in the January issues of the BOARD OF TRADE JOURNAL reaching back to 1922. For that year, the average values and volumes of the divisions, classes, and groups of the trade were given on the basis of the 1913 average values and volumes as 100 For recent years the average values and volumes have been given on the basis of those for 1924, and Table I., in which the comparisons are still with 1913, is the result of combining the two series.

As impediments to the accuracy of the comparisons, two points should be noticed, one relating to the volumes, the other to the average values. The first point is that, owing to the creation of the Irish Free State, the trade of this State with the United Kingdom since 1923 has entered into the trade accounts as overseas trade, and therefore has exaggerated the volumes as compared with the 1913 volumes. Thus, if the trade with the Irish Free State in 1929 were eliminated, the volumes of imports, exports, and re-exports, as given in the table, would have to be reduced by 3.7, 4.9, and 9.3 per cent., respectively, with approximately similar reductions for the years 1924 and 1930. The second point is that the average qualities of the imports and exports may have undergone a relative change since 1913, with the result that the real disparities between the average values of imports and exports may differ from the disparities recorded in the Table; they may be either smaller or larger.

The Table sets out the three large divisions of the trade,

and the three main classes included in the divisions, Classes IV. and V. being of minor importance. Of the imports in 1913, Classes I. and II.—foodstuffs and raw materials—were 73 per cent. of the total; in 1930 the proportion was 70 per cent. Of the exports in 1913, Class III.—manufactured articles—was 79 per cent. of the total; in 1930 the proportion was 76 per cent. In 1913 re-exports were 17 per cent. of the total exports; in 1930, the proportion was 13 per cent. In 1924 re-exports were within 3 per cent. of the 1913 volume, but each succeeding year (apart from 1926) has seen a decline, so that in 1930 the volume was at least 25 per cent. less than in 1913. Officially some part of this decline is attributed to the increasing annual value of goods transhipped under bond but, in so far as it is not thus fully explained, it is significant as an indication of a decline in the entrepôt trade of the United Kingdom.

When we turn to the imports and the exports as a whole, the most striking feature about them is the disparities which have appeared since 1913 both as regards their volumes and their average values. In 1924, the disparities were sufficiently pronounced to be viewed with some concern, and when between 1924 and 1929 the disparity between average values was somewhat reduced, it was regarded as a move in the right direction, though that between the volumes was widened. The effect of the 1930 slump is seen in a widening in both respects, so that, at the end of 1930, while the volume of imports shows an increase of 16 per cent. on the 1913 volume, with an average value 17.3 per cent. higher than the 1913 average value, the volume of the exports shows a decline of 29 per cent. with an average value 52.7 per cent. higher than the 1913 average value.

Apparently, in view of the proportions of the various classes of imports and exports to their totals, and seeing that the raw materials class of imports shows a decline of 13 per cent., the greater part of the increase on the 1913 volume of imports is found in the foodstuffs class. Even so, the 28 per cent. increase in the volume of the relatively less important manufactured articles class of imports stands in striking contrast with the 31 per cent. decline in the relatively more important and corresponding class of exports, a contrast which is further emphasised by the imports showing an

increase of only 15.6 per cent., while the exports show an increase of 54.3 per cent., on their respective average values in 1913. Partly, however, the increased volume and the comparatively low average value of this class of imports are explained by largely increased imports of electrical goods, oils, vehicles, and rubber manufactures, at values much lower than in 1913, but, of the 20 groups included in the class, only five failed to show a larger volume in 1930 than in 1913. These consist of the cotton, silk, other textile materials, chemicals, and leather groups, whose respective volumes were 53, 58, 96, 80, and 73 per cent. of their 1913 volumes.

As already indicated manufactured articles are the dominant class of U.K. exports, comprising 79 per cent. of the total in 1913. Of the 20 groups included in the class, 12 were able to show a larger volume of trade in 1929 than in 1913. In 1930 only seven were in this position, and all of these, apart from the vehicles group, are relatively minor groups. Of the remaining 13 groups, five comprised 51.8 per cent. of the total of U.K. exports in 1913, and it is these five which in 1930 show the largest declines on their 1913 volumes. They consist of the iron and steel, machinery, cotton, woollen, and apparel groups, their respective volumes in 1930 being 75, 70, 43, 57, and 55 per cent. of their 1913 volumes. If to the groups is added coal (which belongs to the raw materials class, and which in 1913 accounted for 9.7 per cent. of the total of U.K. exports, and whose volume in 1930 was 68 per cent. of the 1913 volume), the 1930 position of the U.K. exports, as compared with the 1913 position, is seen in epitome.

In considering the general position as revealed in the above table, especially as regards the disparities between the volumes and the average values of imports and exports, it is at once evident that between the disparities there must be some connection. Though the principle that exports must pay for imports, and imports pay for exports, may require qualification in its practical application, the principle remains fundamentally true. Consequently, starting on the basis of equality of volumes and values in a particular year—in this case 1913—it is to be expected that if, in later years, the average values of exports have increased relatively to the average values of imports, the relative volumes of imports

TABLE I.

OVERSEAS TRADE OF THE UNITED KINGDOM.

1913 = 100	Total Imports.		Exports United Kingdom Produce and Manufactures.		Re-Exports.	
	Average Values.	Volumes of Trade.	Average Values.	Volumes of Trade.	Average Values.	Volumes of Trade.
CLASS I.						
1924.....	155.4	125.4	196.8	80.9	136.7	134.3
1929.....	140.5	130.2	161.0	96.7	137.4	116.4
1930.....	122.9	132.0	148.8	90.6	119.7	122.2
CLASS II.						
1924.....	163.8	90.3	180.3	89.3	130.7	91.8
1929.....	131.0	96.0	131.8	90.6	120.1	71.1
1930.....	107.1	86.7	126.6	76.3	89.8	67.2
CLASS III.						
1924.....	147.0	98.0	185.9	78.8	137.4	83.6
1929.....	125.0	128.8	161.1	86.1	118.2	83.2
1930.....	115.6	127.9	154.3	68.9	109.1	75.4
TOTALS.						
1924.....	155.0	107.4	188.9	80.1	132.0	97.0
1929.....	133.6	119.0	160.0	86.8	121.9	82.2
1930.....	117.3	116.0	152.7	71.0	101.1	78.6
Percentage Changes on Totals. Increase +. Decrease —.						
1929 on 1924	13.8 —	11.1 +	15.3 —	8.4 +	7.7 —	15.3 —
1930 on 1929	12.2 —	2.5 —	4.6 —	18.2 —	17.1 —	4.4 —
1930 on 1924	24.3 —	8.0 +	19.2 —	11.4 —	23.3 —	19.0 —

Class I. Food, Drink, and Tobacco.
,, II. Raw Materials and Articles Mainly Unmanufactured.
,, III. Articles Wholly or Mainly Manufactured.
Totals include Classes IV. and V.

would tend to increase, so that the exports might be paid for. Thus, if in the Table, re-exports are ignored, and imports are regarded as the payment only for U.K. exports, with the average values of imports and exports as recorded for 1924, 1929, and 1930, the volumes of imports required in these years to pay for the recorded 80.1, 86.8, and 71 per cent. of the 1913 volume of exports would be 97.5, 103.9, and 92.4 per cent. of the 1913 volume of imports. Between these figures,

and the actual figures for the above years, there is, however, a considerable difference which indicates that although the tendency to an increase in the relative volumes of imports may have operated, this does not fully account for the recorded disparities between the volumes of imports and exports. Further evidence of this fact is seen in that whereas in 1913 the proportion of the declared values of U.K. exports to the declared values of retained imports was 80 per cent., in 1924, 1929, and 1930 it was 71, 66, and 60 per cent., respectively.

In view of the above figures it becomes evident that at least a large part of the explanation of the disparities between the volumes of imports and exports in recent years must be sought elsewhere than in the disparities between the average values of these imports and exports. This means that we must turn to the balance sheet of income and expenditure between the United Kingdom and other countries, which for 1913 and recent years is shown in Table II.

This balance sheet requires little explanation. In the top portion the excess of " visible " imports over " visible " exports in each of the years mentioned is given ; in the middle portion the totals of the various items which represent the available means of payment for the excess of " visible " imports over " visible " exports ; in the bottom portion, the balances which are left over when the accounts are equalised. Clearly, whether there will be a credit, a debit, or an exact balance depends upon whether the totals of the items in the middle portion exceed, fall short of, or equal the totals of the top portion, and it follows that, whenever there is a credit balance, the excess of " visible " imports over " visible " exports can be increased to the extent to which the balance is brought home, and not invested or otherwise utilised in overseas countries. For our immediate purpose the outstanding feature of the above table is the absolute decreases, and more importantly the relative decreases, in the credit balances in the years 1924-29 on the credit balance in 1913. Whereas, in 1913, the proportion of the credit balance to the totals of the items in the middle portion of the table for that year was 53 per cent., the average for the years 1924-29 was less than 20 per cent., the corresponding figures required to offset the excess of

TABLE II.

BALANCES OF INCOME AND EXPENDITURE

in the Transactions (other than the Lending and Repayment of Capital) between the United Kingdom and all other Countries.[1]

Particulars.	1913	1924	1925	1926	1927	1928	1929
	In Million £						
Excess of imports of merchandise and bullion ..	158	324	384	475	390	358	366
Estimated excess of Government payments made overseas	—	25	11	—	—	—	—
Total	158	349	395	475	390	358	366
Estimated excess of Government receipts from overseas	—	—	—	4	1	15	22
Estimated net national shipping income	94	140	124	120	140	130	130
Estimated net income from overseas investments ..	210	220	250	285	285	285	285
Estimated net receipts from short interest and commissions	25	60	60	60	63	65	65
Estimated net receipts from other sources	10	15	15	15	15	15	15
Total	339	435	449	484	504	510	517
Estimated total credit balance on items specified above.....	181	86	54	9	114	152	151

[1] Statistical Tables, Cmd. 3,737.

"visible" imports over "visible" exports being 47 per cent. and 80 per cent. Apparently, therefore, the other part of the explanation of the disparities between the volumes of imports and exports in recent years as compared with 1913 is found in the fact that the overseas trade balances have become relatively less than in 1913, which means that a larger proportion of the overseas income of the United Kingdom has been brought home and a smaller proportion left for overseas investment or use. Moreover, this latter proportion has represented, in each of the years 1924-29, a less amount in money values than in 1913, and, in view of the change in the level of prices, a much less real amount

than in that year. Very little consideration of the nature of the trade balance will show that an accurate estimate of its amount would be an accurate indication of the extent of the growth (or decline) in the amount of overseas investment. Consequently, the following comparison of trade credit balances and the new capital issues on the London market is of interest :—

TABLE III.

Year.	1913	1924	1925	1926	1927	1928	1929	1930
	In Million £							
Balances	181	86	54	9	114	152	151	*
Issues	198	134	88	112	139	143	94	109

* Balance for 1930 not available at time of writing. Figures obtained from Cmd. 3,737, and Memorandum No. 26, Royal Economic Society.

These figures show that, in recent years, overseas investment has been on a much smaller scale that in 1913, and that in the period 1924-29 the issues exceeded the balances by £144 million, a difference which may be accounted for by an import of foreign-owned capital, perhaps accompanied by repayments of previous overseas investments.[1] If such is the explanation it would appear that the process in operation in the years 1924-27 was reversed in the years 1928-29, the effect of the process being to narrow the trade balance in the earlier years, and to widen the trade balance in the later years.

Whether, on the whole, it is advisable that overseas investment should now proceed at the pre-war rate has become a controversial question, which may be left without discussion in the present article. Here it is sufficient to point out that so long as this investment continues relatively less than in 1913, the disparity between " visible " exports and " visible " imports will continue relatively larger than in that year. On the other hand, it must be borne in mind that, even though this investment continues relatively less than in 1913, if present exports (including services) increased relatively

[1] On the import of capital see ECONOMIC JOURNAL, June, 1930.

to imports, a larger absolute amount of foreign investment would become possible, maybe larger than in 1913.

What, then, are the prospects of a movement in present exports towards the position attained in 1913? Evidently the prospects cannot be considered without reference to the disparity of the average values of imports and exports as between 1930 and 1913. Taking the values as they appear in Table I., without qualification, this disparity means that whereas in 1913 a person with £100 could purchase a composite unit of imports or U.K. exports, in 1930 he would have to pay £117.3 for the imports and £152.7 for the exports. Probably, however, the average quality of U.K. exports is higher than in 1913; possibly, though this is problematical, the average quality of imports is lower than in 1913; more probably, the average value of these imports is inordinately low, and may be expected ultimately to rise. On such grounds the disparity of average values may be partly explained but, in a complete explanation, it seems inevitable that stress would have to be laid on the probability that the average value of U.K. exports is inordinately high. The obvious need, especially in view of the possibility that the average value of imports may rise, would seem to be a reduction in the average value of U.K. exports. On the assumption that the demand for these exports is elastic, the total values would increase and possibly some reduction be effected in the vast army of unemployed associated with the export trades. Can we, however, feel assured that, in the immediate future, the demand for U.K. exports will be elastic? It is, perhaps, not without significance that, in 1929, as compared with 1924, demand appears to have been inelastic rather than elastic.[1] In such case the necessity for a reduction of average values is suggested, not only as a possible means of increasing U.K. exports, but as a means of maintaining them.

The question whether, when everything practicable has been done to reduce these values, U.K. exports, constituted

[1] In order to anticipate any purist critic perhaps I had better say that, in using the terms inelastic and elastic in this connection, I merely mean that, comparing 1929 with 1924, a larger volume with a lower average value resulted in a less total value in 1929 than a smaller volume and a higher average value in 1924, the volumes and values being calculated on the basis of 1913 as 100.

as in 1913, will regain their former position in the national economy is not a question which admits of a confident affirmative answer. Indeed, the evidence would suggest that time will answer the question in the negative, and, in any case, the possibility strongly emphasises the advisability of much present effort being directed to the discovery of new branches of enterprise as, maybe, the only means whereby some permanent inroad can be made into the existing volume of unemployment in the pre-war export trades.

G. W. DANIELS.

BANKING AND THE PRICE LEVEL.

THERE are fashions in economic doctrines and policies as in other human affairs, and at present it is the fashion to account for the prevailing depression of trade mainly by the hoarding of gold on the part of America and France. There is some cause for satisfaction in the fact that this theory is widely discussed in the current press; before the war it would have been impossible to expect the public to realise the dependence of the general level of prices upon credit and the dependence of the amount of bank credit available on gold supply.

In point of fact, however, this explanation is too simple. It is impossible to explain the world-wide depression of trade as being merely the result of a shortage or maldistribution of gold, or to suppose that it could be terminated, or even appreciably mitigated, if America or France were to release a reasonable portion of their central gold reserves. The truth of the matter is that there are continual changes in the general economic conditions, and that these changes affect the banks and compel them to a certain course of action. It might well be argued that for the bankers of any country to attempt to hold up the receding tide of prices might lead them into an unsound position. Whether it could be done by international co-operation of the central banks of the commercial and industrial countries is a question yet to be decided. The present article is concerned more with the economic forces which bankers have to accept than with those which they can alter or initiate.

During the nineteenth century there were two periods characterised by a long-continued or "secular" fall of prices, as contrasted with the cyclical fluctuation of prices over periods of seven to ten years or so. The first period was from 1810 to about 1850, the second from 1873 to 1896. These long periods of falling prices are well shown by the index numbers for England;[1] but the index numbers for

[1] Sauerbeck's numbers (now *Statist*) following those of the late W. S. Jevons.

various countries show that the fall of prices was then very nearly contemporaneous throughout the world, as it is to-day. The first of these periods was initiated by the deflation following the inflation caused by the Napoleonic wars. After the final peace in 1815 prices continued to slump, with slight rises from time to time. With the resumption of specie payments in 1821 the continued decline of prices became more gradual and was definitely broken by prices rising with active trade in 1824, 1839, and 1847. There was a boom of trade in each case, followed by collapse and the fall of prices during two or three years to a lower level than during the preceding cycle. This secular fall of prices is commonly supposed to have been brought to an end by the discoveries of gold in Australia and California. The inflation of currency by the American Civil War, and the restored confidence after the conclusion of peace in Europe in 1871 may have had something to do with the further rise of prices. The second period of secular fall of prices began after the boom of 1873; and it continued until 1897, when the secular rise of prices began which was in progress when the war broke out, and therefore culminated in 1920. It is usual to attribute the secular rise which began in 1897 to the mining of gold in the Transvaal and Klondyke.

I am not prepared to deny that the reversals of the secular fall of prices which occurred in 1853 and 1897 were due to the largely increased supplies of gold which became available in the years immediately preceding those dates from California and Australia, and from the Transvaal respectively. Nor shall I deny that, if new gold-fields should be discovered in the near future and mining were undertaken on a large scale, this would tend to check, and perhaps in a few years reverse, the present secular fall of prices. That supplies of new gold are likely to increase rapidly in the next few years owing to lower mining costs is, I think, probable; but unless new and prolific gold-fields are discovered the supplies may not suffice to reverse the present economic forces, unless international redistribution of gold can be arranged by the League of Nations; and this seems unlikely during the next few years.

The economic forces which require to be reversed have considerable momentum; and it should not be hastily

assumed that they are altogether malignant in their results—that is to say, that they have no advantages. In fact, the continued fall of prices of the great majority of commodities confers many social benefits. What is necessary is fully to understand the causes at work and to devise measures which will counteract the pernicious effects of the declining price level. Let us then briefly trace the normal course of events.

When prices have risen rapidly in a boom of trade a collapse inevitably follows. Those consumers whose incomes expand with rising prices live riotously ; but those having fixed incomes, and wage-earners whose wages lag behind, are compelled by the rising prices to restrict their buying. The collapse is thus started, bankruptcies begin, stocks of goods are thrown on the market, bankers become nervous, as they must do with falling prices, and restrict new credit. Merchants are naturally chary of replenishing their stocks of manufactured goods beyond the minimum day to day requirements, for they do not know how much further prices will fall. Industries suffer an acute falling off of demand, and unemployment increases or short time is worked. Consumers' purchasing power is thus contracted still further ; and so the process goes on, falling prices limiting production, and reduced production limiting purchasing power and causing further weakness.

All these might be rectified within the normal business cycle of seven or ten years ; but a policy of deflation continued for several years brings new forces into play which are likely to continue in action for a long period. Producers, whether they be manufacturers or agriculturists, are compelled to find ways of reducing their costs in the belief that lower prices will revive demand. Railways and steamship companies likewise are stimulated by loss of traffic to devise means of economy. Sooner or later considerable reorganisation takes place in agriculture, industries, and transport, and this, ultimately, of the most beneficial kind, because the real cost per unit of goods produced—*i.e.*, the amount of human labour required—is lowered.

It will be instructive to consider the forces of this kind which are now at work. In agriculture the most notable feature of the decade following 1920 has been the enormous increase of the use of mechanical power in farming.

Millions of acres are ploughed annually by tractors in the great cereal producing countries of the world. The cost of raising cotton, oil seeds, beans, peas, potatoes, and a host of other vegetable products is being reduced in America by large scale power farming, and such devices as machines for picking cotton ; and large areas now being cropped could not be profitably cultivated before the advent of tractors. At the present moment another stage in this revolution is in progress owing to the greatly reduced cost of ploughing with tractors having Diesel engines ; the successful trials of these last September in England will mean their rapid adoption in the Argentine, in Australia, and other wheat producing countries. Added to this we have the growing use of improved seeds giving heavier yield and comparative freedom from disease ; and the enrichment of exhausted lands with the new ammonium phosphate fertilisers, which are so cheap because the nitrogen is fixed from the air by processes only made commercially successful during the war. Farmers throughout the world are competing with one another in lowering their costs, and the farmer who sees bankruptcy staring him in the face endeavours to save himself by cropping a larger area. as well as by reducing costs on his older fields.

In industries an equally striking revolution is in progress. Everywhere elaborate labour-saving machinery is being introduced in mining, and mass production methods with high speed semi-automatic machines are being installed in manufacturing industries. Wholesale prices of metals and many raw materials are down to pre-war levels and may go lower, and prices of many manufactured articles have been cut 25 and even 50 per cent. in the last five years. Further price reduction resulting from rationalisation, or simply specialisation in industries, can be applied to 90 per cent. of the finished and half manufactured goods which come to our markets. The probability is that prices will continue to be substantially lowered by real economies in production in almost every industry. The movement of industrial reorganisation for greater efficiency is world-wide ; and until it has to some extent worked itself out by catching up with scientific knowledge and adopting the new and exact methods of business, prices are not likely to stop falling.

The position in which we find ourselves to-day is best

understood in the light of certain wide generalisations as to the causes mainly responsible for changes of the price level. Over long periods of time, to be measured in centuries, there seem to have been two main tendencies due to wholly different sets of causes. One has been the tendency to reduced prices caused by economies of labour, and thus of real costs, due to the introduction of division of labour, followed by labour-saving machinery, with ever more and more efficient machinery. With the advent of the industrial revolution the tendency to reduction of prices from this cause grew more intense. As the range of manufactured articles produced and their volume increased with a rising standard of living, so have the well-known index numbers of wholesale prices failed more and more to give a true picture of the rise, and particularly of the fall, of the prices of all articles purchased as luxuries and amenities as well as the necessities of life ; for it is pre-eminently the prices of articles other than necessaries which have been reduced by economies in manufacture.

It is true that the law of diminishing returns has to some extent affected the prices of foodstuffs and many raw materials ; perhaps more markedly so before the middle of last century than afterwards. In recent decades the extraordinary reduction of costs of transport by land and sea, and the mechanisation of agriculture and mining, has in most cases more than offset the tendency to diminishing returns.

The other general tendency of the price level is the monetary cause — the tendency to depreciation of the monetary unit. This has had several causes. Before the nineteenth century an important and often dominant cause was the debasement of the coinage and its deterioration from wear and tear, and clipping and rubbing. The expanding use of credit instruments from the fifteenth century onwards, and particularly the rise of banking and note issue in the later seventeenth century, must have had an important influence in depreciating the currency unit which the credit instruments represented. With this must be coupled the greater rapidity of circulation caused by changing business methods dependent on improvements in communications. Each of the causes working on the relation between the monetary unit and goods tended to wax and wane in

importance from time to time; but as a whole, over the centuries, they have meant generally a rising price level. It may be suggested, however, that the tendency to inflation of credit by banks, due to the growth of the cheque and clearing system, was reversed after 1873 by British bankers realising the necessity of following a policy of caution and consolidating their position in a manner which had never been attempted before.

At the present time we seem to have these two main sets of causes working together towards lowering the price level. Real costs are being continually reduced, and there is over-production relatively to purchasing power with existing habits and retail prices. At the same time the banks are following as cautious a policy as ever; and America and France maintain a general national economy as regards tariffs and foreign investment which seems likely to continue the balance of trade in their favour. They may absorb more gold: we cannot expect that they will release much in the next few years. Hence the outlook, so far as it is the resultant of forces which act over a long period, points to a continuance of the secular downward movement of the price level.

Superimposed on the secular movement of prices is the quasi-periodic trade cycle. Glancing back over the chart of prices we see that this has been as short as five years, but usually seven, nine, ten, or eleven years—occasionally thirteen years—from maximum to maximum. I once examined the English foreign trade statistics right back to the early eighteenth century and, using also for data prices back to 1670 and bankruptcies, was able to define the trade cycles for more than two hundred years.[1] The trade cycles were found to have varied in length as follows:—

Duration of cycle in years	4	5	6	7	8	9	10	11	12	13	14	15
Number of cycles of each duration ..	2	0	0	6	1	5	7	3	0	3	1	0

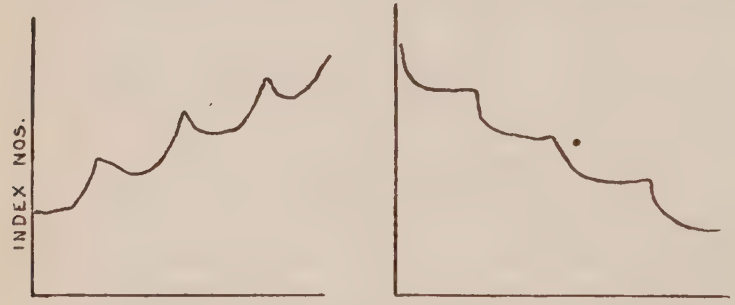
The frequency of seven- and ten-year periods between price maxima is striking; and can hardly be accidental, as the total number of cycles observed is more than 25.

[1] *Indian Journal of Economics*, Vol. II., 1917-18, p. 45. I have added one each of 13 and 9 years for the last two cycles.

The dates of recent cycles are :—

1890—1900	.. ..	10 years.
1900—1907	.. ..	7 ,,
1907—1920	.. ..	13 ,,
1920—1929	.. ..	9 ,,
1929— ?	.. ..	? ,,

It may be said, of course, that 1929 was not a year of price maximum. Why then should it be regarded as the end of the last cycle and the beginning of that now in progress? The reason prices did not rise before the sudden fall which began in 1929 is that the secular fall of the price level has been rapid enough to mask the effects of increasing business activity in the trade cycle. Trade and industry were active and profitable in America, and to a less degree in Europe, during the years 1927 to 1929. The tendency to rising prices due to the causes responsible for the trade cycle were almost exactly balanced by the causes of a secular character tending to lower prices, and the price level remained nearly stationary.



It is important to familiarise oneself with the result of compounding the cyclical fluctuations with the secular trend of the price level. Figure 1 above shows how a curve which has a rising secular trend looks when the cycle of trade is superimposed ; and Figure 2 shows the effect of such superimposition when the secular trend is downwards.

It is impossible, of course, to say how long the present cycle will last ; though we can suggest that either seven or ten years is its most probable length. It is obvious, however, from the shape of the curve in Figure 2 that we can predict a rapid fall of prices in the years 1929-31, with perhaps a slight further fall in 1932. After that there should be stability of the price level for several years. If the cycle

should be prolonged to ten or eleven years, however, we might have a slight rise of prices before the next great slump.

It is important for bankers and business men generally to be able to form in their minds at least a rough idea of the probable trend of prices, not merely for a few months, but for several years ahead. The causes affecting the price level and volume of credit merit the fullest study, and it is to be hoped that the brief sketch of some of those causes given in this paper may help towards making such study more interesting and complete.

H. S. Jevons.

THE WATER SUPPLY OF ENGLISH TOWNS IN 1846.

THE provision in every tenement, large or small, of a piped and constant supply of fresh or filtered water available at all hours for cooking, washing, drinking, and sanitation, has long been a normal feature of urban life in this country. But less than a hundred years ago, when the social fabric was near to breaking under the strain of urban insanitation, overcrowding, and other results of the new industrialism, such provision was looked upon not as a necessity for all but as a luxury to which only the wealthy few could aspire. The governing classes in the 'forties regarded it as the exception for the poor to get their water otherwise than by begging it from private sources or by buying it at excessive rates from more or less distant stand pumps or from carts.[1] So obtained, the water, often impure at source, became further contaminated by storage in open receptacles. With intermittent supplies and a lack of sewers and drains flushed by a flow of water, it is little wonder that in each of the three years 1840-42 (not years of epidemic) the average annual death rate in 37 of the largest towns in the country outside London, comprising a population of 2,791,835, was 27 per 1,000, Liverpool and Manchester heading the list with death rates of 35 and 32 per 1,000, respectively.[2]

Facts such as these, reinforced by the new Registrar-General's quarterly returns, and given wide publicity by the reports of four separate Governmental enquiries into public health between 1838 and 1846, induced Parliament to pass in 1847 and 1848 two Bills which laid the foundations of that system of water sanitation of which the main structure was completed by the Public Health Act of 1875. These were

[1] *Vide* First Report of the Commission on the Health of Towns and Populous Places (1844). The Local Acts incorporating companies rarely imposed an obligation to establish stand pumps in every street or at regular intervals. Another inconvenience was that the water was only "on" at the pumps at certain hours.

[2] *Vide* table in first report, *ibid.* At the present time a death rate of 10 to 12 per 1,000 would be regarded as normal.

the Waterworks Clauses Consolidation Act of 1847 and the Public Health Act of 1848.

The middle years of the 19th century form a transition stage from one system (if it can be called a system) to another. Broadly it is true to say that the problem of supply was, prior to these changes, a local one—that of securing a satisfactory domestic and public service within the area of a local public health authority, whereas in the 'sixties the partial solution of the first problem had already given rise to a second—that of reconciling the interests of several local authorities in having access to the same source and in avoiding river pollution. That the second problem was *regional* rather than *local* was recognised by the Sanitary Commission of 1869, when it recommended that the final say in the matter of a local supply should rest with the watershed authority, if there were one, or, if none existed, then with the proposed new central authority, the Local Government Board. Since then the reports of a variety of Commissions and Committees concerned with one or more of the wider aspects of water—*e.g.*, river pollution, land drainage (*i.e.*, a surface drainage of the lowlands), canals and waterways, water power, and fresh water fisheries—have emphasised the need for national planning. That is doubtless the next phase in water control to which Parliament sooner or later will have to devote its attention. It is obviously inconvenient that we should have at the present day at least three Ministries dealing with one or more aspects only—the Ministry of Agriculture with land drainage and fresh water fisheries, the Ministry of Transport with water power and waterways, and the Ministry of Health with water supply and river pollution.

This article is concerned solely with the first phase—not in its entirety, but only with that moment in it when Parliament was about to take action on the advice tendered to it by responsible people. The year 1846 is a convenient and significant date to choose for this purpose. It was the year in which Mr. Hume's Select Committee on Private Bills presented its report—one of the most businesslike and fruitful documents to be found in the annals of parliamentary enquiry.

Before touching on this report and the results of its recommendations, let us glance at the facilities which then

existed for supplying water to urban populations. The situation had recently been summed up by the Commission of Enquiry into the State of Large Towns and Populous Places, as follows :—The first report (1844) said that (of 50 towns examined) " only in six instances could the arrangements and the supplies be deemed in any comprehensive sense good ; while in 13 they appear to be indifferent, and in 31 so deficient as to be pronounced bad, and, so far as yet examined, frequently inferior in purity." The second report (1845) noted that " the larger towns are most frequently supplied by a joint stock company (in a few instances some of the corporate body are united with the directors[1]). Companies dispose of water only to those willing to buy at such rates and on such conditions as they are pleased to impose, subject to restrictions laid down by Parliament." But the supply of water under provisions of an Act of Parliament was by no means the rule even in the larger towns. Of the 50 examined only 26 were so supplied, and in these 26 the supply was stated to be " very deficient and in many only extended to a part of the town, the poorest and most populous portions deriving little or no benefit." In Birmingham, for example, which was alleged to be " amply supplied " (by a company incorporated in 1826) the Commission found that only 8,000 houses out of 40,000 were separately supplied. The poor there had " no gratuitous supply," and presumably bought their water at the company's stand pumps, as in Newcastle where, in fact, only one-twelfth of the houses were supplied with water.

If supply by company undertakers was so unsatisfactory, surely the local authorities must have been doing something to supplement it or to engage in supply themselves where there was no company supply ? The answer which the two reports enable one to give is that the town authorities were doing practically nothing, even where they possessed authority under statute or ancient custom to supply water. Liverpool and Hull were both examples of municipal incapacity to exercise the powers of supply which (exceptionally for corporations) they possessed, the first under a Local

[1] The only instances discoverable are the Liverpool Corporation Water Co. (1822), known as the Liverpool and Harrington after 1827, and the Leeds Waterworks Co. (1837).

Act of 1786 and the second under its charter of 1447. Liverpool Corporation not only allowed two companies (in 1800 and 1822) to become established within its boundaries, and to make enormous profits, but failed to set up a single public fountain, with the result that many of the poor were left "to beg or steal water." Although the Corporation of Hull had waterworks of its own, the townsfolk were "very inefficiently supplied," by their works.

Besides Hull there were only nine other municipalities in 1845 (out of about 190) which possessed waterworks.[1] Explanation of this is partly to be found in the absence of any General Act (like the Lighting and Watching Act of 1833) enabling local authorities to supply water if they chose. But it is more than doubtful whether, had such an Act been in force, many municipalities would have adopted it. Evidence produced before the Commission[2] indicates that the owners of small freehold or leasehold house property would have been roused to successful opposition against any proposal, involving by reason of its large capital outlay an immediate and heavy addition to the rates. The facilities for long term borrowing, so essential in the case of a modern waterworks undertaking, were completely lacking to the local authorities of 1845.[3] This financial disability goes far to explain why that other—much commoner—type of urban authority, the Improvement Commission, did not more frequently exercise powers of water supply in addition to their usual statutory functions of "paving, lighting, and cleansing." Of 212 such bodies existing at the date of the Commission of Enquiry, 70 had obtained water powers by Local Act, but there is no evidence in either Report that any of them made effective use of these powers. It is significant that in Leeds the works of the Leeds Water Commissioners were in 1837 transferred by Local Act to a limited company under statutory conditions enabling

[1] *Vide* Appendix B to the Report of the Select Committee on Municipal Trading.

[2] *Vide* in particular the evidence of T. Hawkesley, First Report of the Commission of Enquiry.

[3] *Vide* Clifford, History of Private Bill Legislation (1885), Vol. 2, pp. 311-312. Clifford is the only historian of English Local Government to stress this important fact—one which lies at the root of the failure of many Local Boards of Health, set up under the Public Health Act of 1848, to carry out their powers under the Act *re* Sanitation and Water Supply.

the Leeds Corporation to repurchase them at a stipulated price after 12 years. The presumption is that neither the Commission nor the Corporation were willing in 1837 to leave upon the rates the burden of the capital outlay. From the ratepayers' point of view in these early days, joint stock finance under the protection of limited liability was an immeasurably better mode of providing local amenities than rateable value.

Apart from this very real advantage the policy of entrusting the provision of what is an essential public service to private hands, *as that policy was pursued down to* 1847, had little to recommend it. But one cannot altogether blame the directors and shareholders for the very general failure of their undertakings to meet the needs of the poor domestic consumer. The blame, rather, lies at the door of the Parliamentary Private Bill Committees, which altogether failed to protect the interests of the local consumer when considering petitions for the grant of water supply powers to would-be companies.

An examination of the local water supply Acts down to 1845 reveals the extraordinary ineptitude of Parliament as the custodian of the public interest. Up to and including 1845, 65 companies in England and Wales had been incorporated and endowed with water supply powers by Parliament. In addition, there were, survivals from a remote past, the two large and flourishing Chartered Companies, the New River (1619) and the Chelsea (1723). But these latter owed their happy position after 1820 very largely to the fact that they had been able to increase their rates of charge as the result of " gentleman agreements " entered into by the numerous London water companies between 1815 and 1817.

Parliament had endeavoured round about 1810 to ensure an abundant and cheap supply of water in North London by setting up three new companies in competition with one another and with those already in the field. After a few years of expensive competition the companies regained control of the market by an agreed policy of " districting." The result showed (as was pointed out by the Select Committee on the Supply of Water for the Metropolis in 1821) that Parliament had pursued a mistaken policy, for which the consumer was ultimately made to pay in increased charges for the wasteful

investment of double and often treble capitals in the laying of water mains along the same streets. Yet in spite of the awful example of London and the warning of theeconomists [1] Parliament still continued for a quarter of a century to rely on competition as the best mode of protecting the consumer.

Mr. T. Hawkesley, Engineer of the Nottingham Trent Waterworks Company, put the case against Parliament neatly when he told the Commission of Enquiry that the companies could not obtain security (for the expense of laying on water to the poorer classes) "so long as Parliament shall prefer the ill-working check of interested rivalry to the disinterested control of a national authority."

It is true that after 1822 it was the practice to insert in water supply Bills a schedule of maxima charges for domestic supply [2] In practically all special Acts, incorporating water companies between 1822 and 1845, one or other of two sliding scales are to be found: both occur with almost equal frequency year by year. Under one scale the maximum rate starts at £1 for houses not exceeding £10 annual value' (net) and rises by steep but unequal increments to £7 for houses exceeding £100 in value. The other scale provides for a series of fixed percentage rates varying from £7 10s. for houses valued at not more than £20 per annum to £5 for houses valued at over £100 per annum. It looks, at first sight, as though under the first scale the maxima rates of charge varied proportionately to increases in the net annual value of premises, and, under the second, inversely. But if the rates under the first scale are expressed as percentages of average values, it becomes clear that both sliding scales were so contrived as to discriminate in favour of the more expensive houses, the only substantial difference between the two being that the second scale gave a substantially larger preference to houses in the categories of £80-£100

[1] *Vide* McCulloch's *Dictionary of Commerce*, p. 1,229 of the 2nd Edition, 1839.

[2] In none of the 16 Local Acts conferring water powers on English companies in the first twenty years of the 19th century, were any maxima rates of charge specified. There was, however, one Scottish Company (that for supplying water to Edinburgh in 1819) which was limited not only as to its rates of charge but also as to its dividends. Dividend limitation was exceptional until the 'forties, when a 10% limitation on the original capital often occurs. The only earlier examples that I have found are in the Chester Act of 1826 ($7\frac{1}{2}$%) and the Leeds Act of 1837 (6%).

and over £100. In so far as both scales accorded a preference to the wealthier residents they were sound (from a commercial standpoint) in offering some inducement to those householders who presumably could afford the expense, to lay service pipes to the companies' mains.

From the poor consumer's point of view statutory rate-fixing was a quite useless weapon of protection. His desiderata were three: an obligation on the companies to lay their mains in the streets of the poor quarters of a town, an obligation on the owners of working class property to connect to the houses, and an obligation on the companies to afford not only connection with their mains on demand, but a supply of pure water at a constant pressure. None of the special Acts imposed either the first or the second of these obligations. Few of the earlier Acts compelled the companies (under penalty) to afford connection where connection was possible; and no Acts until after 1846 imposed conditions regarding either quantity or quality of service. The only public duty, usually, but not invariably, imposed on the companies, was to instal fire plugs at which water might be drawn, free of charge, for fire extinction purposes. On the other hand the Acts provided penalties for persons found guilty of polluting the companies' water.

The most striking characteristic of the situation up to 1846 was the complete absence of any public control, either central or local, over the companies' activities. One witness before the Commission of Enquiry described the part which Parliament played (in passing Local Acts) as follows:—"It has been observed that Parliament in giving such powers to remedy local evils acts like a physician who never sees the patient but gives one prescription on the hearsay of ignorant or interested persons, and never afterwards attends to see what will be the course of the disease, and alter the prescription accordingly." He might have added that Parliament, as a physician, charged the patient fees which would have been oppressively high even if the prescription had been beneficial.[1]

[1] Mr. Hume's Committee (1846) noted that "under the present system the expenses of obtaining the most necessary or desirable private bill are grievously and needlessly heavy, while the great mass of private bills materially affect public interests and are, although local, essentially public bills."

Although the practice of incorporating by special Acts limited companies for the supply of water to towns was not abandoned after 1846 but was, on the contrary, pursued more vigorously than ever (an additional 80 companies were authorised for this purpose in England and Wales during the 20 years, 1846-1865) the practice was now regulated in more than one way by public policy. Space forbids more than a hasty glance at the main characteristics of this policy.

First, the principle was adopted of granting to companies a conditional monopoly of supply in the areas for which they were established, that is to say, Parliament no longer countenanced the entry of two or more authorised undertakers in the same field of service. The Public Health Act empowered the new local public boards of health, contemplated by the Act, to supply water themselves for private and public purposes in their areas only if they were unable to procure a supply sufficient for the needs of their population by contract. This provision was useful because it clearly offered a powerful inducement to any company, within the area of a public health authority, to meet the requirements of that authority, as far as it was possible, in the matter of supply in order to preserve their monopoly.

Secondly, Mr. Hawkesley's principle of national control was to a certain extent applied in the Preliminary Enquiries Act of 1846. This Act, *inter alia*, obliged the promoters, prior to application to Parliament for establishing water works, to notify the Commissioners of Woods and Forests and authorised the latter Department to make a preliminary enquiry (in the nature of a public local enquiry) through a Surveying Officer, and report to Parliament accordingly, the promoters being saddled with the expenses of the enquiry. For the next year or so the Commissioners were kept busy examining and reporting on the numerous water schemes then pending. But, although the enquiries seem to have been ably conducted, the system proved a failure because the interested parties soon discovered that it was better to withhold the complete statement of their case before the Surveyor and to fight it *de novo* before the Committee on the Bill. The Act, after amendment in 1848, was finally repealed (as regards enquiries by the Commissioners of Woods and Forests) in 1851. Nevertheless, it may be rightly regarded

as a useful experiment in a new type of procedure (that known as the Provisional Order) which in a later day was to afford the public, affected by a Private Bill, a disinterested consideration of their interests, which they could never be sure of getting from Parliament alone.

Thirdly, the Waterworks Clauses Consolidation Act passed in 1847 offered some assurance to the poor or working-class consumer that in future Parliament would not, in conferring water powers on companies, exempt them from the obligations to supply water on demand to any district within their area, and to maintain in their pipes pure water at a constant pressure. Unfortunately the provisions of the Act were not automatically applied to existing companies. The Act merely enabled Private Bill committees, if they saw fit, to incorporate the whole or any part of the Act in any future Bill conferring new or additional powers on a water company. For many years to come it was by no means usual for Parliament to insist on a constant supply of water under pressure sufficient to reach the top storey of the highest house in the company's area. In other words the committee would often allow some modification of this desirable clause.

A review of the general legislation of this period, 1846-1848, suggests that while a new policy of public control was at last clearly envisaged by Parliament, means for implementing this policy effectively were lacking for many years to come. The history of this second phase is, like the earlier, full of interest to the student of public control. Water supply throughout the 19th century is practically a virgin field of exploration. The chief authorities on the history of English Local Government—Redlich and the Webbs—scarcely deal with it at all.

A. L. Dakyns.

NOTES.

CONCERNING A CRITICISM OF RECENT CRITICISMS OF THE THEORY OF WAGES.

It is, of course, a traditionally easy escape to say that one's critic has misunderstood one's argument. But I should have felt more flattered if Professor Daniels had interpreted me as meaning something a little more sensible than in certain places he has done. For instance, I did not base my argument in the article in the Economic Journal to which he refers on an atomistic view of the universe by which all generalistion is rendered impossible, as Professor Daniels assumes on page 9. The degree of indeterminateness which I allege to exist applies to our existing conceptual apparatus with which we are attempting to frame a mathematically determinate solution. For a determinate solution to result, the technical apparatus must fulfil certain conditions; and I merely claimed that these conditions were not fulfilled in this particular case. If Professor Daniels desires a parallel from physical science, I would refer him to "the problem of three bodies."

Again, when I stated that the labour bargain would lie between the two zero "indifference curves" of the two parties, my reason was not that "one of the parties would maintain (wages) above the level in order that there might be a future supply of labour," but simply that at rates of exchange outside this range it would not be in the direct interest (or within the capacity) of one or other of the parties to enter into the bargain at all. I imagined the point to require no further elucidation to anyone familiar with the apparatus of utility curves. "The basis of indifference curves" is, therefore, not "rationality," but simply a choice

or preference, more or less consciously formulated. Professor Daniels' remarks concerning the rational man on page 10, therefore, hardly apply.

When I contended that " there is no warrant for assuming that, if wages had advanced more rapidly over the 19th century, our present accumulation of capital would be on a smaller scale," this conclusion is clearly not " similar to the conclusion that if some time last year Mr. Dobb had written a different article for the ECONOMIC JOURNAL, a different article would have appeared in the ECONOMIC JOURNAL." It is similar to the statement that " there is no warrant for assuming that, if A's article in THE MANCHESTER SCHOOL had been longer, it would necessarily have been B's article that the Editor would have cut down."

To the charge that I " do not accept the view that the total income of a community is the result of the co-operant activities of the contributing factors " I can hardly make answer until Professor Daniels has told me more explicitly what his phrase means. If it means that neither labour nor machinery nor nature in isolation could create the present national dividend, then it seems hardly possible for me not to accept this view. But if the phrase is intended to imply more than this, then there may well be ground for dissent.

Professor Daniels accuses my interpretation of existing wage-theory of being a " travesty." But the only reason which he adduces in support of this statement is that I treat the problem as one of a bargain between " two rigidly separated parties," capital and labour. But is not this the usual device—at least, the initial simplifying device—by which the conception of a supply and demand wage-equilibrium is framed? True, there are other factors of production than these two. But it is both common and, surely, legitimate to group together agents of production other than labour, and to represent them unitarily as the determining factors in the employers' demand for labour. At any rate, the device is employed more frequently in text-book expositions of marginal productivity and wages than it is by me. In making the charge of neglect against an abstraction it is important to indicate how far the neglected factor is significant or relevant to the argument. Otherwise, it is not worth talking about. What, after all, is the use of

an abstraction if it does not neglect quite a number of things?

Professor Daniels' central argument seems to be that, if sufficient unknowns are treated as constants, wage-theory can be made to postulate an equilibrium; and that while this *ceteris paribus* device may make the result inadequate, the theory still remains valid as a general guide. I should certainly not deny that any system of equations can be made to provide a solution provided enough conditions are assumed to make this possible. But it is of some importance that the conditions should be mutually consistent; and this I contended in respect to wage-theory was not always the case. This Professor Daniels does not mention. Moreover, I should be the last to deny that an analysis may possess considerable value for a number of purposes, even if quite a number of significant factors are subsumed under a *ceteris paribus* clause. The important question is: to which purposes is it appropriate and to which is it rendered inappropriate by the assumptions it makes—which questions is it capable of answering and which is it not? And to this also Professor Daniels does not refer. My claim is that existing wage-theory is not capable of providing an answer to a large number of the questions which it is customarily made to answer, and that its alleged solutions to *these* issues are either no solution (because of a hidden *ignoratio elenchi*) or entirely false ones. All economic events, it is true, are influenced by the whole chain of past history. But this does not prevent our knowledge in certain instances from being adequate to calculate that a certain given series of present conditions will produce a certain resultant which can only alter in the degree that the given conditions alter. When it is asserted that a determinate solution of this kind is not possible, it is meant that the known conditions are inadequate to the calculation of a resultant, or (what amounts to the same thing) that the introduction of an "arbitrary" change at a certain point may alter the whole series of conditions which make up the total situation. For instance, in asserting that existing wage-theory did not properly constitute a theory of determinate equilibrium I implied that an "arbitrary" influence which altered the wage-bargain (*e.g.*, collective bargaining or legislative interference) might react

on the x's and y's by which the wage-level was supposedly determined, and so produce a shift in the whole situation. Moreover, it is not possible to calculate the *degree* of disturbance which an initial displacement of this kind may produce, since the movement once started *may* be cumulative (up to a limit, of course). Hence, in Marshall's terminology, the labour market may reach *an* equilibrium, but this will not necessarily be *the* equilibrium; and an "arbitrary" change which displaces it may produce, not a tendency to *return* to the previous position, but a new situation which leads to an altered equilibrium. Wage-theory in its existing form may not be rendered useless. But it will, I claim, have to take a more modest place in the hierarchy of knowledge, which at the outset of my original article I was careful to group for this purpose into three categories, of which only the third and highest could claim to answer the type of question which a theory of equilibrium is expected to do.

The practical matter at issue is really that of the *laissez-faire* view of wages. I believe that this view has no theoretical basis. I do not believe that existing wage-theory is competent to postulate any such thing as a defined "natural" or "economic" level of wages as it is commonly made to do, or to support such dogmatic statements as that made by a recent writer in the following language:—

> "Workers' combinations are impotent to secure a redistribution of the product of industry in favour of the relatively poor. Such a result cannot be achieved by interference with the value mechanism. . . . The rate of wages which is best for the workers as a whole is that which is determined in the free market." (W. H. Hutt, *The Theory of Collective Bargaining*, pp. 106-7.)

When economic theory bears such progeny, can one wonder (in the words of Marshall) at "that instinctive objection which the working classes have felt to the habit of some economists, particularly those of the employer class, of treating labour simply as a commodity and regarding the labour market as like every other market"? The instinct, at any rate, seems to have been sounder than the hidden assumptions of economists.

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Cambridge.

SAVING AND INVESTMENT.

A Treatise on Money. By JOHN MAYNARD KEYNES. (Macmillan. 2 vols. 15s. each.)

THE first volume of this work, apart from two discussions upon money and its purchasing power, is an exposition of monetary theory that evolves out of the amplification of Mr. Keynes' central thesis. The two preliminary discussions, the one relating to the classification of money, the other relating to the analytical value of different price levels, will be of as great interest, to those who care for the kind of mental gymnastics that the study of economics provides, as any other part of the book—once the central thesis has been clearly grasped—and their importance is greater than the summary treatment they receive here. The first is concerned with the evolution of managed money, following Knapp's conception of money as derivative of the State, and its relation through the central and joint-stock banks to the money currently used in business and everyday transactions. The analysis is particularly instructive and helpful, in spite of the somewhat irksome use of capital letters heralding the approach of every substantive of financial standing. It is especially so in relation to the change which has taken place through the use of the standard of value in settling terms of indebtedness, taking precedence over the use of money merely as a means of facilitating the exchange of goods, a change concurrent with a decrease in our acceptance of money as a commodity.

It is, however, Mr. Keynes' central thesis around which this book is written, and this, in the author's hands, is a most powerful instrument in increasing our knowledge of money, our understanding of central banking theory, and our analytical grasp of the "credit cycle." Briefly, the thesis is as follows :—

Individuals in the community have in general the choice of doing three things with their money incomes. They can spend the whole or part of their incomes on commodities or services for the sake of the enjoyment they obtain from their consumption, whether immediate or deferred. They can save their incomes, either directly—an unusual case—by

putting money away (*e.g.*, in a mattress or stocking), or by handing it over, generally for a money payment, to some individual or institution (*e.g.*, a building society or a bank), and so shift the onus of deciding what shall be done with the money on to that body. They can invest the money in the special sense of buying new tangible goods or equipment (*e.g.*, a house or a laundry) which will yield them a money income or save a money payment. The only way in which a choice of one or another of these three ways of using one's income can be avoided is to buy property of some kind that someone else previously possessed, in which case the *seller* is faced, at one or more removes, with the choice of our three alternatives. Now, generally speaking, it is not the same body of people that decides how much new investment shall be carried out as decides how much saving shall be performed. The general public saves, builds up saving deposits, and hoards money, but it is a more restricted body, entrepreneurs, that brings about investment. If entrepreneurs have no need to depend solely upon savings (if, for example, they can obtain credits from the banks or obtain increased credits from their trade creditors), then there is no reason why saving should not be less (or greater) than investment during a period of time.

Suppose that in a period of time a community is obtaining an income of £100, of which £20 is saved and only £10 invested. Suppose that this income is obtained from the running of 100 factories, which are identical and capable of producing anything we want them to, so that the commodities produced in the factories have "cost" £100 to produce, in the sense that £100 has been paid out to factors of production producing them. If we "spend" £80, save and invest £20, then 80 of our factories will produce consumption goods, and 20 equipment or investment goods. But if we spend £80 and save £20, and only invest one half of what we save, then we are only putting into the hands of the factory owners £90. But 8/9.100, or about 89 factories, costing, *ex hypothesi*, £89 to run, will produce consumption goods for which we offer only £80, and 11 factories costing £11 to run will produce production or investment goods for which we offer only £10. In other words, there will be a loss of £10 sustained during the period merely because saving is outrunning invest-

ment, and if we reduce production, by closing down some of our factories, we shall reduce not only the number of things that can be bought, but the amount of income that can buy them in the same proportion, except in so far as saving is diminished relatively to investment. The price level, both of consumption and investment goods, will tend to fall, remain stationary, or rise, according as to whether saving is greater, equal to, or less than investment.

For those who are interested in the details of Mr. Keynes' statement, it may be said that more is implicit in the equation : $P = E/O + I'-S/R$, but the above conclusion is all that Mr. Keynes needs to forge his instrument of analysis. In particular, the equation may be criticised, as we think the above *conclusion* may not, on two grounds, one of which seems to be valid.

1. On formal grounds, the price level of consumption goods (P) cannot be independent of the price level of equipment goods. This is true, but the existence of the term E/R implies dependence upon the money efficiency earnings of *all* factors, and, therefore, upon equipment.

2. The position of the line between income and profits must always be somewhat difficult to decide upon, as must the line between investment and income goods, but the position which Mr. Keynes has decided upon does not appear to be clearly defined. He says, Vol. 1, pp. 124–125, no profits or losses are being made when at any time entrepreneurs at current prices would not desire to, even if they could, alter the range of their enterprises—*i.e.*, to increase or decrease the employment of factors. But this is unsatisfactory, for the entrepreneur may himself be the owner of capital (*e.g.*, the ordinary shareholder), who, though he may not tend to alter the employment of other factors, may still be obtaining less or more on the cost of the investment than he would want were he now to make the investment. It would appear that I'–S, being negative (saving being greater than investment) will merely reduce the incomes of entrepreneurs, which in itself will tend to bring about a fall in I', and this leaves one with two alternative ways of looking at the situation. One can regard this negative value of I'–S as reducing the money efficiency payment to capital employed in industry, which it is, and thus causing a reduction in that payment

which is totally made up of profits; or one can assume "normal" income to be paid to the entrepreneur, and anything greater or less than this to be positive or negative profit (in which case at last Mr. Keynes has embraced the long period). Now, there is a case for talking of normal returns to *new* capital, but little case for talking of normal returns to invested capital—what, for example, is the "normal" return to a 1920 spindle that cost £4, and if the entrepreneur at "current" rates wants to make new contracts and withdraw his own capital, if he could, must he be taken to want to withdraw the £4, the break-up, or the L.C.C., value of that spindle, because which it is to be will obviously affect his desire to withdraw it?

On the other hand, if we take profits to be the quasi-rents upon old investments (perhaps the most logical method for dynamical studies) we leave the line to be drawn by accountants, and by this method even in the cotton spinning industry profits are some ¼% upon the purchase (or repurchase) price of the spindles, if we take nominal capital to be a rough measure of this.

But all these points do not affect the thesis that prices will depend upon I'–S. That prices have been falling and unemployment has been considerable are signs that in this country saving has been outrunning investment, and, indirectly, that the Bank Rate, influenced by the relation of our foreign lending to our foreign balance, is too high to stimulate investment in working capital and in bonds. The banks may be prevented from creating enough deposits to satisfy the "bear" position, so that there is a continual fall in security prices militating against investment. This bald statement does scant justice to Mr. Keynes' acute explanation of the effect of Bank Rate upon industry, finance, and the trade cycle, but it must serve as a prologue to the practical proposals embodied in Vol. II.

Last and most far-reaching (but not altogether new) is a plan for the virtual monetary banishment of gold by the erection, for example, of the B.I.S. as a Supernational Central Bank. In order to make the journey to that solution more tolerable, Mr. Keynes again sets forth his plea for greater latitude in the powers of our Central Bank by the widening of the gold points and the establishment of central

bank dealings in forward exchange. Most controversial, however, are his proposals for the protection of our foreign exchange position. We can either influence our foreign balance or our foreign lending to stop the strain upon our gold position, so allowing our Bank Rate to fall, and by increasing investment stop the calamitous fall in prices. The first we can do in two ways. First, we can reduce costs by increasing efficiency, but this will be slow, and may be nullified by similar action by other countries, or by reducing money wages, and this will certainly be difficult and attended by friction, and conceivably, under democratic conditions, may be dangerous to private enterprise. Second, we can reduce imports by the imposition of tariffs (and this method Mr. Keynes is coming to favour).

The second can be done by encouraging home relatively to foreign investment, which the author favours too, because it will tend to allow our rate of interest to fall more quickly than the world rate, and so decrease foreign lending and increase home investment at the same time. Or, a third way, we can directly stimulate home investment, relatively to saving, by government action.

These proposals are much too big to criticise summarily ; they, like other more theoretical points, will create a great deal of interest. It must be said that the Treatise, though new in presentation, and gaining incalculably as it does thereby, is not altogether new in substance. The discrepancy between saving and investment and its effect upon the price level is analysed in Mr. Denis Robertson's *Banking Policy and the Price Level*, and perception of the difficulty of the Bank in making its action appropriate to *external* and *internal* conditions is not new, but even so a great deal of what has been said before is probably to a large extent due to Mr. Keynes' influence and thought. Finally, it may be said that the Treatise will be enjoyed by those who like difficult going, and will be the starting point for further studies in money for a long time to come.

JACK STAFFORD

REVIEWS.

Unemployment: A Problem of Industry (1909 *and* 1930). By Sir WILLIAM BEVERIDGE. (Longmans, Green. 21s.)

THIS volume is divided into two parts: the first is virtually a reprint of the study *Unemployment*, first published in 1909; the second enquires how far the conclusions of 1909 still hold, and how far forces not discernible two decades ago are responsible for present conditions.

One is not surprised that the conclusions of the earlier work remain untroubled, but one cannot but be dismayed to find that the conclusions are still borne out by positive evidence. The worker, unborn in 1909, is faced with the same problems of employment as his father. The visitations of the trade cycle, too easily explainable in 1921 by special circumstances, and in this country masked by political action in 1925, are not mere spectres of the past. Seasonal fluctuations, inevitable as they may be in individual trades, have not been dovetailed by social action. The decasualisation of employment, feasible in the docks and constructional work prior to 1921 due to the shortage of labour supplies, has made little progress.

The organisation of the labour market to improve mobility, by increasing knowledge and decreasing the expense and risk of travel, so necessary to counteract the decay of firms, trades, and districts, was forging an instrument in the Labour Exchanges of pre-war days, but the sharpness of this instrument has been blunted by the apathy of employers, and by the work it has had to do in supervising and meeting claims to benefit of the large number of unemployed.

The problems of 1909 are, unfortunately, still the problems of 1930, and, to add to our misfortunes, the old troubles have been magnified. The difficulties of the export trades have caused acute local unemployment, aggravated for the time being, at any rate, by rationalisation, compared with which

the results of transference are insignificant. In short, the declining birth rate, technical changes, and the changing disposition of world trade have made the problem of organising the labour market still more urgent of solution.

So much for the old sores : yet a complete cure is not to be effected merely by their treatment. At bottom, the author is apparently of the opinion that our troubles are largely due to the fundamentally wrong way in which we are tackling unemployment. Unemployment insurance " was never meant to be the last as well as the first defence against destitution," and by taking up this attitude two important and unwholesome results follow. Assistance is in danger of increasing unemployment by keeping up money wages, during a period of rapidly falling wholesale prices, not so much by psychological reactions of the individual, but rather by the relief and power it gives to Trade Unions. And insurance is a tax on employment, and enters *directly* into costs of production.

The treatment for the new disease, but still giving maintenance to unemployed willing to work, is to make *limited* benefit commensurate again with premiums paid, to give employers a *money* interest in reducing unemployment, and to obtain an adequate " final line of defence." For the disharmony between wages and productivity the author finds it harder to prescribe. The falling price levels have at least nullified the effects of increased productivity since 1925 by causing an actual increase in real wages. Maybe the choice is one, as the author says, between a high standard for those in work and widespread unemployment, or a slightly lower standard and work, with the modified qualifications of 1909, for all.

In 1931 this is a timely reminder that all our troubles did not begin on Wall Street, and it will be a monument of social analysis when the present depression is past, and even, one hopes, when all the maladjustments to which we are now subject have disappeared, and we are in a position once more to set about the task of solving this " problem of industry."

J. S.

The Idea of Value. By JOHN LAIRD. (Cambridge University Press. 18s.)

THE first thirty pages of this extremely well written volume should prove very stimulating to the economist. In those pages the contribution of economic theory to the philosophy of value is analysed, not very flatteringly. Professor Laird comes to the conclusion that the main use of "utility" or "satisfaction" concepts has been to get discussion under way, and so a superficial psychology has been evolved that stresses too greatly the rôle of feeling in matters of volition, conduct, and choice. Smith, Ricardo and Jevons are clearly wrong. Even Marshall's terms "hide at least as much as they reveal." For this criticism there is strong justification. The notion of utility is certainly "accepted rather casually and debated rather perfunctorily in economic treatises." It might well be that a more severe study of theoretical bases would lessen some of the difficulties we meet in developing our theories.

Professor Laird also notes a trend—directly due to the inadequacy of "satisfaction" concepts—to concentrate on exchange-value. He maintains, instancing the mutual benefit of a good bargain, that exchange values and economic values are not the same. Nevertheless, if the psychology of satisfaction is as involved as he thinks it is—and as we think it is—then the economist seems compelled to narrow the range of his ambitions, and to dwell on the ponderable. Or else he must scrap his mathematics and return to the twilight of conjecture.

The reader is referred particularly to the analysis of marginal theory (pp. 23-32). To Professor Laird the whole structure is unconvincing, reaching the height of absurdity in the "economic rhapsody contained in the doctrine of an alleged consumer's surplus." His choice of illustrations is not very happy, but one is inclined to agree that what A would do if . . . is straining satisfaction theory too far.

For penetrating destructive criticism of the immature philosophy of economics this volume is to be recommended. It it unfortunate that we are given nothing to substitute.

E. R.

Joint Stock Banking in Germany. By P. Barrett Whale. (Macmillan. 16s.)

This is an interesting work on the origin and development of the German Credit Banks—a development which, by virtue of their participation in the formation and flotation of industrial companies differs in many ways from that of British banks. The joining together of deposit banking and company flotation, which in England would be dealt with by an issuing house, appears, notwithstanding the losses which are certain occasionally to be sustained, to have greatly aided Germany's industrial progress in the period between the Franco-German and Great wars.

The book is divided into two parts: the first deals with German financial organisation before the war, the second with the three troublesome periods—wartime, the period of inflation, and the aftermath of stabilisation. It is, perhaps, the analysis contained in the last chapter, together with the valuable appendices on modern conditions and tendencies, that will appeal to the student of the part which finance is playing in industry to-day.

There is contained in this work a mass of information and statistics regarding the chief German banks, and an interesting chapter on German Company Law. Altogether, it is a most valuable survey of a field that, because of a preoccupation with central banking theory, has been neglected.

H. S. S.

Economic Rhythm—A Theory of Business Cycles. By Dr. E. Wagemann. (McGraw-Hill. 12s. 6d.)

In this very important volume Dr. Wagemann undertakes a study of trade cycles with a close eye upon the practical problem of business forecasting, and, from the vantage point of the presidency of what is perhaps the most successful forecasting service in the world, acutely criticises the various methods which have been adopted by similar services in the United States. The book is important because it marks an approach to trade cycle theory which differs widely from that found in most other writings. Dr. Wagemann, in his zeal for measuring economic phenomena, is not a whit behind those patient and tireless workers in the United States who are amassing such a wealth of statistical material bearing upon

cyclical movements. Indeed, some of his pathbreaking attempts to measure relations which have formerly been only theorised about—such as the exact relation between agricultural and industrial fluctuations—constitute the most interesting and what will perhaps ultimately prove to be the most valuable sections of the volume. But the really distinguishing feature of the work is the attempt to bring statistics to bear upon the conception of an economic system which is dynamic in character ; which is constantly creating cyclical " positions" and cyclical " tensions," and in which the infinite number of different possible combinations of economic forces will always prevent any situation ever exactly repeating itself. The obvious criticism of the method is that the conception of how the economic system works is a guess, and must perhaps inevitably be so while statistical information and statistical methods of identifying the effects of one force when a number are operating together are so inadequate. But it must not be forgotten that it is with this basic idea of how the machine runs, and through the building up of statistical material around the central idea, that Dr. Wagemann has achieved such marked success in guessing at the future.

Since this novel approach is employed it is not surprising that the author rejects those methods of forecasting, based upon the use of single or multiple curves, which are so widely used in the United States, and several of his most valuable chapters describe the material collected by the Berlin Institute for Business Cycle Research and the processes adopted in interpreting it for forecasting purposes.

J. J.

The Money Machine. By F. WHITMORE. (Pitman. 5s.)

THIS book gives an admirable though brief account of the nature and significance of the multiplicity of transactions carried through in the London Money Market. Any doubt which may arise as to how far the treatment of the subject is consonant with the title is at once allayed by Mr. O. R. Hobson's foreword, which points out the error involved in assuming that influences operative in the Money Market are to any great extent mechanical. Mr. Whitmore's treatment serves further to emphasise this fact. The tone of the preface seems to us to be unduly apologetic, since this work will

form a valuable adjunct to existing literature rather than involve a repetition.

While expressing admiration for the lucid way in which the author lends clarity to the complexity of existing money-market organisation, it is unfortunate that it has been done in so compressed a form. Students having a reasonable acquaintance with elementary monetary theory will welcome this realistic supplement, but to others its value is lost. The chapter which deals with the methods through which the aggregate demand for, and supply of, new capital are focussed is ably written, though many incidental references would have been given an added value by amplification. Mr. Whitmore's chapter on foreign exchange dealings, though probably confined to less space than is often accorded to the subject in many general works on elementary economic theory, makes a welcome departure from the traditional method of treatment. It is a matter for regret that he did not go to the length of eliminating the two now traditional transactions involving A B C and D to the sum of £100. More might have been said of the suggested increased concern of British merchants for exchange fluctuations as compared with pre-war days. In treating of variations in foreign exchange rates, some mention might have been made of the possible influence arising from currency causes.

The book is well produced and free from minor errors. One exception is on page 114, where the purchase price of fine gold by the Federal Reserve Bank of New York is given as $2.067 instead of $20.67. S. G. R.

Methods of Correlation Analysis. By MORDECAI EZEKIEL. (Chapman and Hall. 22s. 6d.)

Mathematical Introduction to Economics. By GRIFFITH C. EVANS. (McGraw-Hill. 15s.)

THE development of correlation analysis has been so largely the work of English statisticians that this new American book by Mr. Ezekiel is particularly welcome. It embodies much of the original work, particularly on multiple and joint correlation, done by the research staff of the Bureau of Agricultural Economics of the United States Department of Agriculture during the past ten years. Though the influence of Pearson, "Student," and Fisher is evident throughout,

the book is particularly helpful in showing the practical use of correlation methods especially in agricultural economics. Moreover, it is ably written—a rare accomplishment for a statistical book.

Professor Evans' book is more elementary, and is intended to give an account of economic problems by means of mathematical methods. In the first part of the book, he considers changes in the force of demand and supply and their influence on the determination of price. The analysis of demand curves follows conventional lines, but is likely to be superseded by the more recent works of Pigou in England and Leontief in Germany. In the later part of the book, Professor Evans discusses the problem of economic dynamics. His treatment of this is rather sketchy, but he promises a fuller discussion in a later book.

Both books include a general index, and a useful bibliography of studies in mathematical methods in American publications. The mathematics should be followed with ease by readers having a working knowledge of calculus.

H. C.

Some Economic Consequences of the Great War. By A. L. Bowley. Thornton Butterworth. 2s. 6d.)

In 247 brief and readable pages Dr. Bowley describes, with a judicious use of figures, some of the effects of the war—upon population, national finance and international indebtedness, world trade, industrial changes, and monetary values. The descriptive method employed gives a lucid introduction to many of the problems waiting solution, and the work is in itself proof of what simple statistics can show in able hands.

The Theory of Collective Bargaining. By W. H. Hutt. (P. S. King. 5s.)

This book is an attempt to prove by analysis the impotence of associations of workers to affect the wage bargain. With certain assumptions, which are not stated and, perhaps, not realised, this thesis may be upheld, within certain limits, but the reader will think, especially if he is acquainted with Mr. Rowe's work, that he is living with Mr. Hutt in a world of unreality. The analysis of the views of the older economists is sometimes acute, but too often criticism arises from unsympathetic reading.

MISCELLANY.

Professor G. W. Daniels has been elected President of the Manchester Statistical Society, and read the inaugural paper of this session on British Foreign Trade.

Professor T. E. Gregory, of London, has been appointed successor to Professor Henry Clay in the Chair of Social Economics in the University.

During the Lent Term Professor Gregory delivered a series of public lectures on Current Economic Problems.

We regret that Professor Gregory has been unable to complete the article which was announced for publication in this number, owing to his activities as a member of the Macmillan Committee on Finance and Industry. An article will appear in the October issue.

Professor Henry Clay has been appointed a member of the Royal Commission investigating the present position of unemployment.

Professor Clay has also been invited to become a member of the arbitral board set up to enquire into the present wages dispute in the Pottery Industry.

Mr. C. D. Campbell has been elected to a Research Fellowship in Social Science under the Laura Spelman Rockefeller Foundation.

Mr. H. Campion has been appointed Robert Ottley Lecturer in Statistics.

Mr. J. Stafford has been appointed Assistant Lecturer in Economics.

CONSUMERS' INCOME AND OUTLAY

If the method of monetary analysis through consumers' income and consumers' outlay is to be securely founded, it is necessary to arrive at precise definitions of these two concepts. It is the purpose of this article to define them, especially by clearing up doubtful and borderline cases.

About consumers' income there is no mystery. It is simply the total of incomes expressed in money.

Why, it may be asked, give this name to what is commonly called the national income? But national income is too narrow; it would apply only to the total of incomes of a *nation*, whereas for the purposes of monetary analysis we may require the total for *any* group, whether it be a nation or something larger or smaller or different.

The main reason for selecting the expression *consumers'* income is that we require a correlative of consumers' outlay. Consumers' outlay is the total spent out of incomes. Such phrases as "total of money incomes" and "total of money outlays" would not serve our purpose, for money outlays would normally be understood to include any kind of expenditure, whether out of income or not. The total of money outlays would be an equally appropriate name for Professor Irving Fisher's total of transactions. But if we qualify it by reference to the consumers, and call it the total of consumers' money outlays, then it is clear that we mean to limit it to expenditure out of income.

The full phrase "total of consumers' money outlays" would be cumbrous. Moreover, while income may be either real income or money income, outlay necessarily means money outlay, and the word money can therefore be dropped out. In "total of consumers' outlays," the word "total" likewise seems superfluous. The phrase can be shortened to "consumers' outlay" without modifying the sense. The outlay in the singular of consumers in the plural is necessarily a total. Once we have arrived at so handy a phrase as consumers' outlay, there are obvious advantages in using the

corresponding expression, consumers' income, rather than "total of money incomes," or "money income stream" or any variant of these.

The guiding principle in defining the twin concepts will be that consumers' outlay comprises only outlay *out of income*. Consider first the case where there is no ambiguity as to what constitutes income. A man is receiving remuneration for work he does, or a fixed income from interest, rent, or pension. An income may be spent on consumable goods. But it may also be spent in part on investment, the purchase of capital assets, or of rights in capital assets in the form of shares, debentures, mortgages, etc. And the consumable goods will include, besides those like food, which are destroyed by the act of consumption, others of greater or less durability. The more durable consumable goods approximate in character to capital assets. The purchase of a house is an investment in a capital asset, and articles of furniture, jewellery, etc., may outlast a house.

If anyone sells a capital asset or any commodity previously bought out of income, he receives money for it, and it is not possible to distinguish this money, when it comes to be spent or invested, from that received as income. It cannot be assumed that any particular items of outlay can be identified as having been bought out of this money. When a consumer receives any money which is not to be counted as income, we can only arrive at his outlay *from income* by deducting an equal sum from his total outlay.

When he sells anything which he has previously bought, he may be regarded as to that extent *undoing* the outlay applied to it. The proceeds of sale are *negative* outlay. If he sells to another consumer, the same transaction will be positive outlay to the purchaser, and the net result will be no outlay at all, till the seller comes to spend the proceeds of sale. If such goods are sold to a trader, the outlay by consumers on purchases from the trader will be a net amount, arrived at by setting off his purchases from some consumers against the gross purchases of others from him.

Sums of money received by consumers which are not to be counted as income we will call "extraneous" receipts. Extraneous receipts will be treated as negative outlay, so that the consumers' outlay over any interval of time in which

there have been extraneous receipts will be a net amount arrived at by deducting a sum equal to the extraneous receipts from the total outlay. The outlay thus deducted we will call "extraneous outlay." Extraneous outlay is not a set of identifiable items of expenditure, but is a deduction to be made from outlay as a whole in the interval of time concerned.

Extraneous receipts will include the proceeds of sale of any capital asset, securities as well as commodities. They will also include sums borrowed, except sums borrowed from *banks*, a special case to which we shall refer presently. When a consumer borrows money, he may be regarded as "selling" his own obligation to repay the money. To the lender the obligation is a capital asset or investment, and forms an item in his share of the consumers' outlay. To the borrower the money is negative outlay.

Two people have incomes of £1,000 a year each. In a certain year one borrows £100 from the other. The borrower spends £1,100 and the lender £900. Nevertheless, the consumers' outlay attributable to each is £1,000, because £100 of the borrower's expenditure is not out of income, while the lender has spent £100 out of income on an investment, in addition to the other £900.

When a loan comes to be repaid, the borrower may be regarded as buying back his debt, and the lender as disposing of an investment. The repayment, being out of income, is consumers' outlay to the borrower, but it is an extraneous receipt to the lender.

Other examples of extraneous receipts are gifts, bequests, inheritances, and gambling gains. But, of course, it is only when received in *money* that they have to be classed as extraneous receipts. A bequest or gift of securities or property does not disturb the outlay of the beneficiary. But should he at any time sell any possessions so acquired, the proceeds will be an extraneous receipt, though the outlay he is "undoing" is not his own, but his predecessor's.

Extraneous receipts might be described as receipts on capital account. But extraneous outlay cannot be described as expenditure on capital account. On the one hand savings out of income are applied to acquire capital assets, and on

the other it happens not only to the spendthrift but occasionally to the prudent man that capital assets have to be realised to pay for current expenditure.

Any difference between the income and outlay of an individual consumer over an interval of time is reflected in his cash balance. Cash here includes bank deposits. Theoretically it would be possible to limit cash to money, and to treat a deposit in a bank as an "investment" and, therefore, as an object of outlay. But a deposit, especially one on current account, is acquired only in order to be parted with. It is held not at all as an investment but as a means of payment.

Time deposits cannot be classified quite so confidently. Deposits in savings banks or savings departments of commercial banks are usually intended to be investments, the right of withdrawal being exercised in much the same sort of circumstances as would lead to a sale of investments. But time deposits in a bank of which the main business is receiving deposits on current account subject to cheque, are probably intended to be withdrawn again after a short interval, and the dividing line between demand deposits and time deposits is sometimes very hazy. The balance of advantage is in favour of treating all deposits at such banks as cash. Money placed on time deposit is, therefore, to be regarded as withheld from outlay, not as spent on an investment. When it is withdrawn and spent, the spending is to be regarded as consumers' outlay, not as extraneous outlay.

Since we do not treat the acquisition of a deposit at a bank as outlay on an investment, so we do not treat an advance from a bank as an extraneous receipt. We regard it as an anticipation of income. Thus when a consumer with an income of £1,000 a year borrows £100 from his banker in a certain year and spends £1,100, we regard the whole £1,100 as consumers' outlay. If he started with no credit balance, he ends the year with his cash balance a negative quantity of £100.

There is a justification for this difference of treatment as compared with that of a loan from one consumer to another. For the bank, unlike the consumer, does not have to draw on a definite cash holding to make the loan, but *creates* the cash in the form of its own obligation.

The consumer's cash balance at any time, whether positive or negative, is equal to the excess of his income over his outlay up to date. It is strengthened by extraneous receipts in just the same way as by additional income, but the extraneous receipts are offset by the equivalent extraneous outlay.

When the consumer has a credit balance and draws upon it, outlay exceeds income by the amount so drawn. This amount represents past income. When he incurs a debit balance, the outlay represents future income. When he pays off a debit, this does not count as outlay.

Since extraneous receipts count as negative outlay, the consumers' outlay for an individual in an interval of time may easily be a negative quantity. That is to say, his cash balance may be increased by more than the amount of income he receives in the interval.

When a consumer receives credit from a trader from whom he buys, we treat him not as anticipating income but as obtaining an extraneous receipt, just as if he had borrowed money from the trader. Book debts due to the trader are included as assets in the trader's working capital. It is only when the purchaser actually pays that the purchase becomes part of the consumers' outlay.

It might be supposed that consumers' income, being essentially *money*, should exclude income paid in kind. But that is not so. A payment in kind is better treated as combining both income and outlay in a single transaction. If a butler receives board and lodging as part of his remuneration, there arises a twofold demand—firstly, for the services rendered by the butler, and secondly, for the goods consumed by him, just as much as if he received payment for the former and paid for the latter. Only, receipt and payment being simultaneous and equal, no cash actually passes. We have to assume that all payments in kind are valued at the prices of the day. The valuation may be hypothetical, but is legitimate enough. Consumers' income is not income *received* in money, but income *expressed* in money.

I turn next to the trader, using the term in a wide sense to include any one, whether a producer or a dealer in commodities or in securities, etc., who makes his income in the form of profit.

Profit is the difference between costs and selling price. It is characteristic of the trader that his business involves expenditure by way of costs, so that his income is only a fraction of his gross receipts. His expenditure and gross receipts constitute his "turnover," and his net receipts constitute his income.

The costs will be composed partly of purchases from other traders, and partly of payments of wages, salaries, interest, etc., to those who contribute, by their services or by their property, to the production or handling of the goods traded in.

There are borderline cases between the trader who receives profit and the recipient of salary, wages, or interest, whose entire receipts are income, without any deduction for costs—*e.g.*, professional men who spend money on office accommodation and clerical or technical assistance, or landlords who incur expense in maintaining and managing their property. We need not consider which of such doubtful cases should be classed as traders. An absolutely rigorous division is not necessary.

A trader's costs are incurred in advance of his receipts. At any moment of time he has incurred a certain amount of expenditure which has not yet borne fruit in sales of his product. This expenditure is met from his *capital*.

The provision of capital for a business is an investment, the acquisition of which out of income is originally part of the consumers' outlay. But the capital once provided, disbursements from it are no longer consumers' outlay. They are analogous to what we have called extraneous outlay. When the sums disbursed are replaced out of sales, they are analogous to extraneous receipts.

The capital of a business includes a cash balance, which is, indeed, a necessary means of carrying on the business. The costs are paid for out of the cash balance, and the receipts are credited to it. The cash balance of a business differs from the cash balance of an individual in that it is an object of investment. The provision of funds out of income to create or strengthen the cash balance of a business is a part of the consumers' outlay.

A trader's business requires a cash balance only because it involves expenditure on costs. If the whole of the receipts

of an occupation are income, they can be credited to the personal cash balance of the recipient, without the intervention of a business balance. We might almost have defined traders as those who require separate cash balances for business purposes. But in practice this would not be applicable without exceptions.

Where a business is carried on by a company or a partnership, the cash balances of the business are bound to be kept formally separate from the private balances held by the proprietors of the business in their capacity as individual consumers. Where a business is carried on by one man on his own account, he will very likely keep his private balance separate from his business balance, but this is not necessarily so. He may have a single balance into which he pays all receipts and out of which he pays both the expenses of the business and his own personal expenditure. Usually in such a case we can regard the balance as belonging to the business. Over any interval of time the income derived from the business may be treated as spent on investment in the business, while the proprietor's personal expenditure is provided by capital withdrawn from the business. The investment in the business is consumers' outlay, while the withdrawal of capital is an extraneous receipt or negative outlay, and the personal expenditure again is consumers' outlay. The net result is that for the proprietor consumers' outlay is equal to consumers' income, as it must be when we suppose his cash balance to be invariably *nil*.

In what is, nowadays, at any rate, the more normal case, where a business has cash balances separate from those of its proprietors, the proprietors, whether shareholders or partners, will draw out so much of the profit as it may be decided to distribute, but the *whole* of the profit belongs to them, and any undistributed residue is part of their incomes. If the residue is kept in the business and credited to reserve, it is income invested in the business, and counts accordingly both as consumers' income and as consumers' outlay. If, on the other hand, the profits do not suffice to pay the dividends declared, and money is drawn from reserve, the sum so drawn is not income, but is an extraneous receipt.

It may be difficult to say exactly what the true income derived from a business in an interval of time is. In the

first place the proper allowance for depreciation is a matte of opinion ; it depends on a forecast of the rapidity not only of wear, but of obsolescence.

Secondly, there are problems arising from the valuation of stock-in-trade. If the stock-in-trade remains unchanged in quantity, but prices change, there will be a gain or loss, which may be taken into account in the valuation of the stock for balance-sheet purposes, and so in the calculation of profits. But this gain or loss ought *not* to be taken into account in calculating consumers' income or outlay. The stock is part of the necessary capital of the business. If it is to be kept intact, the profit that could be made by selling off all or part of it at any moment is hypothetical. The income derived from the business is to be arrived at from the proceeds of the goods sold during the interval and the costs incurred in replacing them, and so maintaining stocks unchanged. Everything produced will thus be accounted for, on the side of costs when it is actually in course of production, and on the side of receipts when it is actually sold. All valuations at other times are hypothetical estimates.

This would be a perfectly adequate solution of the problem if stocks were in fact kept always unchanged. But in practice, even if there is a normal which they tend to approach, the stocks held by any business are susceptible of very considerable variations.

So long as a trader is producing in response to orders or forward contracts at agreed prices, there is a definite and ascertainable profit to be credited on his output, and he can reckon his income accordingly. But if he is producing for stock, or if he is not a producer but a dealer, whether wholesale or retail, who buys without knowing precisely at what price the future state of the market will allow him to sell, the profit on any goods acquired in excess of current sales can only be estimated.

Any trader whose sales are not keeping pace with his output or his purchases finds that his receipts are not keeping pace with his disbursements. He must pay for the difference by the release of cash from his balance, which forms part of his capital. If the cash balance is insufficient, he must strengthen it, and if we leave out of account for the moment the possibility of his strengthening it by the

sale of something other than the product in which he is trading, he must do so by *borrowing*. When banks create credit by granting increased advances to traders, this is for the purpose of enabling the traders to release cash. On the other hand, a trader who has accumulated a substantial balance of cash on time deposit can release cash without borrowing.

The cash released is paid away in the form of costs, partly the purchase price of materials or intermediate products from other traders, partly the wages and other payments involved in the cost of manufacturing or of handling the goods. These payments are made in anticipation of the receipts from the sale of the product. The payments to other traders for materials or intermediate products go to provide the incomes of the people engaged in producing and handling these things, including the profits of the traders themselves as well as the wages, etc., paid by them. Therefore the *whole* of the cash released is devoted to paying the incomes of people concerned in producing or handling the goods that the trader is producing or buying.

But if he provides by his borrowing for all these incomes in anticipation of sales, may he not provide also for his own profit? The only reason against it is that the amount of his profit remains doubtful till the selling price of the product is settled. But probably in the case of a producer the price *is* settled beforehand. This is less likely in the case of a dealer whether wholesale or retail. But whether the price is settled or not, it may very well be that the trader will anticipate some of his profit by drawing it out of the business and borrowing to that extent more than is actually necessary to meet his costs. He is then receiving so much "on account" of a profit which is still incomplete.

To the question *when* the profit on any industrial or commercial activity accrues there is no certain or simple answer. The accruing profit lies hidden in the capital of the concern, and at any moment the precise amount of it is a matter of opinion and estimate. The proprietors or the shareholders receive sums based on the estimated amount of profit, and adjusted, it may be, to meet their convenience in the matter of regularity of income. So much profit as they do not draw out is left in the capital account, and must be

reckoned as an investment of a part of their income. This invested residue may be of quite uncertain amount. To determine it exactly, we should have to assign a value to the unsold output. We should have to adopt conventions and hypotheses, such as are employed in the construction of a balance sheet, though they can hardly be said to possess any scientific authority.

This difficulty is inherent in the very idea of income, and we cannot let it stand in our way in employing the idea. In practice we shall find that it need not do so.

If we take as a single group all the traders engaged in the supply of a particular kind of product, producers, transporters, wholesale dealers, retail dealers and others, including the producers of the raw materials and the dealers between one intermediate producer and another, we find that the incomes derived by all the traders in the group and those employed by them from the selected branch of economic activity are ultimately composed of the proceeds of sale of the finished product to the consumer. Each trader receives payment from those a stage nearer the consumer than himself, and his costs consist partly in the payments for the labour and capital that he employs, and partly in payments to traders a stage further from the consumer than himself. The money received from the consumers may be compared to an irrigating stream, flowing to the traders at each successive stage, from the retailers to the producers of the raw materials, and every trader's cash balance is a reservoir from which the stream flows along income channels to those who contribute through their services or their property to the processes of production and distribution.

The trader from his reservoir of cash (supplemented if need be by borrowing) can release cash to provide an outflow of incomes (including his own receipts on account of profits) in excess of his sales. Or, alternatively, if the outflow of incomes falls short of sales, he absorbs cash and can repay advances.

In the case of an individual trader, disbursements include not only the incomes of those contributing to the production or handling of the goods, but also the payments made to other traders for the purchase of materials or intermediate products or for services rendered. But if we turn to the

group of all traders engaged in producing and dealing in a product, we find that all the receipts and payments between one trader and another cancel out, and we are left with the principle that in any interval of time the difference between the incomes derived from the group and the proceeds of sale of the finished products to consumers is provided for by an equal release or absorption of cash, as the case may require, by the traders of the group.

The practical application of this principle would be obscured by the difficulty of subdividing the incomes and balances of traders engaged in the production or handling of more than one commodity. But we can proceed to the more comprehensive principle, that if *all* the traders in a community be regarded as a single group, the difference between the incomes derived from industry and commerce as a whole and the proceeds of sale of the products to consumers is provided for by an equal release or absorption of cash, accompanied presumably by such a decrease or increase in bank advances as may be required to keep cash balances at their normal level.

Now the incomes derived from the traders' businesses are a very large part of the entire consumers' income. They include all except (1) incomes paid by the State or by public authorities, and (2) incomes derived from the rendering of services which are themselves directly consumable.

As to the former, we regard the State and other public authorities (municipalities, etc.) as "traders" supplying law, order, and administration to the taxpayers and receiving payment for these services. There are classes of public expenditure, such as interest on non-reproductive debt, pensions, etc., which are not made in consideration of any current services at all. But these payments may for our present purpose be regarded as part of the cost of Government, just as debenture interest is part of a trader's costs.

There remain "consumable" services. When a service is rendered direct to the consumer—*e.g.*, by a domestic servant—the payment for it is an item in the consumers' income and a simultaneous and identical item in the consumers' outlay. It is only where a trader intervenes between the receipts from consumers' outlay and the payments of consumers' income that there is room for any difference between consumers'

income and consumers' outlay. It rests with the traders to decide whether their disbursements in the form of incomes (including their own profits) shall keep pace with their sales, or whether they shall exceed them or fall short of them. It is for them on the one hand to increase productive activity and release cash, or on the other to contract productive activity and absorb cash. In the one case they will probably increase their indebtedness to the banks, and in the other reduce it.

Just as a consumer who borrows from a bank in order to release cash and increases consumers' outlay may be regarded as anticipating income, so a trader who borrows from a bank in order to release cash and increases consumers' income may be regarded as anticipating consumers' outlay, from which his receipts are derived.

In the long run the demand for goods is equal to the consumers' outlay. But the release or absorption of cash by the traders in any interval of time adds to this demand or subtracts from it.

The traders who release cash transform part of their working capital from cash into goods, and those who absorb cash transform part of their working capital from goods into cash.[1] The provision of goods for working capital makes demands on the productive activity of the community just as much as sales to consumers. It is a form of investment and when provided not by borrowing but out of income would be included in consumers' outlay.

Any variation in demand tends to bring about a change in price. When traders release cash, demand is increased at all prior stages of the industry concerned, and there is likely to result a rise of prices. Similarly an absorption of cash, involving a decreased demand at these stages, is likely to cause a fall of prices. In either case there arises a discrepancy between the prices of the intermediate products concerned and the price received from the consumer for the finished product. These changes of prices affect the valuation of working capital, and also the division of the available income from profits among the traders concerned.

A variation in demand may originate in the sales to consumers. Suppose there is an increase in demand. The

[1] They may use the cash for the provision of new *fixed* capital. In that case they convert working capital into fixed capital.

first effect is felt in an increased volume of retail sales. There follows an increase in orders to wholesale dealers and through them to producers. If the increase in demand is considerable and persistent, there will be a rise of prices. But this rise is likely to occur first in wholesale prices and prices of intermediate products and materials. And the same is true of the fall of prices, when there is a decline of demand. There thus occurs a discrepancy between wholesale and retail price levels.

The discrepancy is probably symptomatic of a discrepancy between output and sales. The producers raise their prices when they have difficulty in keeping pace with the orders they receive, and they lower their prices when they have difficulty in keeping their plant fully employed. The result is that the change in output is less than in proportion to the change in sales, but that in the one case the producers secure additional profit at the expense of the retailers, and in the other the retailers secure additional profit at the expense of the producers. Eventually (unless the change in demand turns out to be temporary only) retail prices will be adjusted, and equilibrium between sales and output restored.

There is a dual relation between consumers' income and consumers' outlay, on the one hand through traders' cash balances and on the other through consumers' cash balances. Consumers' income can only exceed consumers' outlay if traders release cash equal to the difference. But it is equally true that consumers' income can only exceed consumers' outlay if the consumers absorb cash equal to the difference.

When the traders release cash and the consumers' income is increased, the immediate effect is to add the cash released to the consumers' balances. But presumably the consumers will spend or invest at any rate a part of their additional cash, and the result will be an increase in the consumers' outlay (not, in general, equal to the increase in the consumers' income). The increase in the consumers' outlay will mean an increase in the traders' sales, and will restore to their balances some of the cash they originally released. Each of the two groups, the traders on the one side and the consumers on the other, between which the cash of the community is divided, is in the position of unloading cash on the other.

The same situation might originate from a release of cash by the consumers. Consumers' outlay would exceed consumers' income, traders' sales would increase, and traders would then accelerate output and release cash. But it is more likely to originate with the traders, because they more readily regulate their cash by borrowing more or less from the banks.

The foregoing analysis applies just as much to the case where the traders (or consumers) absorb cash, and the consumers' income (or outlay) is reduced.

Consumers' outlay may substantially be identified with the demand for goods. All the sales from one trader to another are based on the anticipated sales to the consumer, from the proceeds of which the incomes of the traders and the labour and capital employed by them must ultimately be found. In the case of consumable goods this process is simple. But in the case of instrumental goods or capital goods, there are certain complexities which need to be explained.

Some capital goods are purchased, like consumable goods, directly out of income, supplemented, if need be, by temporary borrowing. For example, a man may buy a house and pay for it out of income in two or three years. Or an industrialist may pay for improvements or extensions of plant out of undistributed profits.

The complexities of the capital market arise not in these cases, but in the system of raising funds by the issue of marketable securities, either shares or long-term or funded loans, such as are dealt in on the Stock Exchange. The purchase of such securities with sums saved out of income is a part of consumers' outlay. This is so, whether the purchaser is an individual consumer, or a trading concern. For, so long as the funds are provided *out of income*, the trading concern is the agency of its proprietors in disposing of a part of their income.

If a trading concern buys securities not out of accruing income but out of its existing capital, that is not part of the consumers' outlay. The original provision of the capital when it was placed in the concern ranked as an investment and as part of the consumers' outlay, and thereafter the

change of the capital from one form of investment to another must not so rank again.

New issues of securities in the investment market are the means of providing funds for new capital enterprises. These funds constitute a demand for capital goods. But they are not necessarily themselves part of the consumers' outlay. The sums applied out of consumers' outlay to the purchase of securities are not laid out directly upon the new issues, they are placed in whatever securities the investors may select. It is a characteristic of the investment market that the private investor (the " consumer ") is not merely a buyer, but operates as a seller also. Sometimes he enters the market as a speculator ; buying for the express purpose of selling at a profit, he assumes for the time being the attributes of a trader. Sometimes, in order to take a favourable opportunity of acquiring some shares or other capital assets, he will sell some of his existing investments, or anticipate future savings by borrowing. Occasionally he will sell an investment merely because he thinks that for the moment it is over-valued in the market, and he can reinvest the proceeds more favourably. Traders who are not themselves dealers in the investment market will often invest capital not immediately needed for their own business in marketable securities, and will appear as sellers of the securities when the capital is needed.

The proceeds of sale of securities or other capital assets are extraneous receipts, and so much of the purchases of securities as are met from this source constitute extraneous outlay. Only the excess over these purchases counts as consumers' outlay.

The investment market has its *professional* dealers, such as the London Stock-jobber or the Wall Street trader, upon whom devolves the essential function of quoting a price. If the market is to function freely, the dealers as a body must be prepared to comply with any demands for the purchase or sale of any securities. They will rely on suitable adjustments of price to equalise the purchases and sales of each security, but they can never secure exact equality, and they must, therefore, hold a supply of securities of all kinds to meet any temporary excess of purchases by the public.

There will be an excess of purchases by the public of

securities in general over sales, representing the sums invested out of income in securities. The dealers' holdings of securities will be at the same time replenished by new issues. Through the machinery of issuing houses and underwriters the new issues are disposed of to investors, so that the dealers are left with no more than a suitable proportion of the new issues, alongside their holdings of the old securities.

If the new issues outstrip the available inflow of investible funds, the dealers' holdings of securities will be increased; if the new issues fall short, their holdings will be diminished. The excess of holdings over the dealers' own capital is held with borrowed money, and thus the fluctuations in the holdings are accompanied by equal fluctuations in bank advances to the dealers.

What the consumers' outlay is directly spent on through the investment market is not goods, but securities. The outlay is ultimately a demand for capital goods, because the securities represent rights to participate in capital enterprises (by share, debenture, or mortgage), but in being transmitted by the market this demand may be increased or diminished according as the market's bank advances are increased or diminished. The demand which actually confronts the producers of capital goods emanates from the promoters of capital enterprises, with whom the new capital issues originate.

But if we remember that the dealers in the investment market are *traders*, whose cash balances and bank advances are to be treated on the same footing as those of other traders, we find that this difference between the consumers' outlay and the demand for goods is merely a particular case of the principle we have already recognised, that traders can, by releasing or absorbing cash, add to or subtract from the demand for goods represented by the consumers' outlay.

We may regard the investment market as retailing capital enterprises to consumers in their capacity as investors. It divides up the capital enterprises into parcels, but instead of dividing them up physically, like goods sold in shops, it divides up the *rights of property* in them, and sells the entitling documents. It is through the sale of these parcels of rights in capital enterprises that there occurs that transfer

of ownership from a trader to a consumer which is the characteristic function of the consumers' outlay.

If a bank's business were exclusively confined to clearing cheques and granting loans and overdrafts, we could treat it as no more than an instrument for regulating cash balances, positive and negative. But banks buy and sell securities. In doing so, they are performing the functions of traders. When a bank buys a security we may regard it as combining the two capacities of banker and trader. The result is the same as if it had made an advance in the former capacity to enable itself in the latter capacity to release cash equal to the purchase price of the security. Thus we must regard banks not only as enabling traders or consumers to release cash by granting them advances, but also sometimes as releasing cash on their own account by buying securities.

Among the traders will be included those concerned in the export and import trades. The export trade generates incomes in exactly the same way as any other economic activity, but the receipts of the traders are derived from consumers abroad. At the same time a part of the consumers' outlay is applied to the purchase of imported goods, foreign travel, external investment, and other "invisible imports." The dealers in foreign exchange set off one set of payments against the other. If the two fail to balance (all payments made to and from abroad being taken into account) that means that the portion of the consumers' outlay applied to imports is too great or too small, as the case may be, and there results an outflow or inflow of gold (a gold standard being assumed). The purchase or sale of gold between one bank and another is to be regarded as a creation or extinction of bank credit, not as the purchase or sale of a commodity, though the first purchase of the gold by a bank from a producer or dealer is a release of cash by the bank.

When the banking system of a country takes steps to expand or contract credit, the essence of the measure is the consequent increase or decrease in the consumers' income and outlay. An expansion of credit encourages traders to release cash ; a contraction impels them to absorb cash.

The quantity theory of money would explain the phenomena in terms of the quantity of cash, the volume of transactions, the price level, and the velocity of circulation.

The quantity of cash (money and bank credit) is what I call the " unspent margin " ; it is the total of consumers' balances and traders' balances. Velocity and price level have different meanings for different versions of the quantity theory. If velocity be defined as the ratio of consumers' outlay to unspent margin (Messrs. Foster and Catchings' " circuit velocity " of money), then the product of velocity and quantity is simply the consumers' outlay, and the quantity theory is reduced to the simple formula that the price level varies directly as the consumers' outlay, and inversely as the " volume of transactions," which means for this purpose the goods bought out of the consumers' outlay

That does not mean that we can eliminate velocity and unspent margin from monetary theory altogether. The unspent margin has a special importance, because it is one of the factors *known* to those responsible for regulating credit. Even so, I think it has been accorded too much prominence in credit policy. The terms inflation and deflation are frequently used to mean simply an increase or decrease in the unspent margin, and attention is concentrated on such movements to the exclusion of the far more important changes in consumers' income and outlay.

We cannot measure consumers' income and outlay promptly or at short intervals. But we can measure two of the factors principally determining them, the price level and productive activity.

For the price level we are practically confined to the wholesale price index, whereas what we need is an index of the prices actually paid for finished goods, by consumers for consumable goods and by traders for capital goods. But the wholesale index is closely related to the prices of finished goods, and is *more* sensitive. The guidance it supplies is, therefore, just what is required for practical purposes.

For productive activity the essential index is that of unemployment. Indexes of production are also useful, if due allowance be made for changing circumstances, such as improvements in productive capacity.

A release of cash requires *either* an increase of velocity, *or* a creation of credit. That is to say, traders may either make additional cash available by holding smaller balances, or keep up their balances by borrowing from the banks. But

it is the borrowing from the banks that is susceptible of control, or at any rate can be stimulated or checked by suitable measures.

An expansion of credit is a device for causing a release of cash, and a contraction of credit a device for causing an absorption of cash. The creation of credit generates incomes; an acceleration of the process increases consumers' income; a retardation decreases it.

It has been pointed out above that the release of cash adds to the demand for goods arising from the consumers' outlay, and the absorption of cash subtracts from it. But it would be a mistake to lay too much stress on this immediate effect on demand. The addition or subtraction of demand arises only during the transitional interval when there is a difference between consumers' income and consumers' outlay. The moment consumers' income diverges from consumers' outlay, there is a tendency for consumers' outlay to follow; and when consumers' outlay diverges from consumers' income, there is a tendency for consumers' income to follow. The response is only delayed while in the former case consumers' balances, or in the latter traders' balances, are adapting themselves to the new situation.

If traders release cash, consumers' income is increased, consumers' outlay then increases, and increased sales restore to the traders part of the cash released. As I have shown above, the traders and the consumers are unloading cash on each other. And in the same way, when the traders absorb cash the consequent decrease in the consumers' income is accompanied by a decrease in consumers' outlay and in the traders' sales. The outcome, after the adjustment of cash balances is completed, is a new equilibrium with consumers' income and outlay equal to one another, and in the one case definitely greater, in the other smaller than before. It is at that stage, when demand is again equal to consumers' outlay, that the credit operation by which the release or absorption of cash was brought about has accomplished its object.

In the intermediate stages the changes in consumers' income and outlay will not in general be accompanied by exactly proportional changes in the price level. For one thing there will usually be a change in output. When sales

increase, output is accelerated (unless industry is already employed up to capacity), and when sales fall off, output flags.

And the immediate effect of an increase or decrease in demand is an increase or decrease of sales of goods from stock at the existing prices. Only after it has become clear that the decrement or increment of stocks is not merely fortuitous, do retailers think of altering prices.

When we are considering an increase or decrease of consumers' income and outlay in a country which forms part of an international gold standard system, the prices for foreign trade products (those suitable for export or import) are determined by international markets, and do not rise or fall to any significant extent in response to an increase or decrease of consumers' outlay. The effect of an increase or decrease of consumers' outlay is felt in an increased or decreased consumption of foreign trade products, and, therefore, in an unfavourable or favourable balance of payments.

The first impact of any monetary movement is felt in a change in consumers' income and outlay. Changes of price level follow with a time lag, and in the interval there are changes of output, of commodity stocks, and of the balance of payments. Eventually, when all transitional effects have subsided and equilibrium is re-established, output will be normal and the consumers' income and outlay will be equal to one another and proportional to the price level.

R. G. HAWTREY.

THE PRESENT ECONOMIC SITUATION

BETWEEN 1921 and 1929 the average annual number of insured persons unemployed in the United Kingdom was about 1¼ millions ; for 1930 the number was about 2 millions ; during the first half of 1931 the number has increased to more than 2½ millions. To say that these figures indicate the existence of a serious situation is merely to labour the obvious. The figures mean that, at the time of writing—July, 1931—of the estimated insured population more than one in five is not only making no contribution to the national income, but is being maintained by the ordinary contributions to the unemployment insurance fund supplemented by large extraordinary contributions from the public revenue.[1] But this is not a complete view of the situation. At a time of abnormal unemployment the income of a highly organised economic community is diminished not only to the extent of the loss of the income of the human factors of production that are unemployed. In such a community as ours the factors are co-operant factors with capital, and when human factors are unemployed, so necessarily are these capital factors unemployed or underemployed, with the consequent loss of the income which would otherwise accrue to them. Thus the situation which has to be visualised is a diminution of income consequent upon the unemployment of human and capital factors of production, with the probability of an increased strain upon those factors which continue in employment, due to their having to provide a larger proportion of a probably increased public expenditure. Only on the assumption that the diminution of income, consequent upon the abnormal unemployment, is offset by an increased income accruing to the employed factors can such a strain be avoided.

Evidently, as regards any particular community, the strain imposed by the burden of abnormal unemployment depends upon the weight of the burden in relation to the

1 Perhaps the writer may be permitted to say that the whole of this article was written before the position in this country had developed into an open financial crisis.

capacity for bearing it. If the weight is not too great, it may be borne without any considerable lowering of the standard of expenditure of the employed factors, at any rate. If the burden becomes greater, it may have to be borne by a large lowering of the standard of expenditure of the employed factors, and it is evident that there are limits beyond which this process cannot be carried without serious reactions. An indication that these limits have been reached is given when public revenue fails to meet, and cannot be made to meet, public expenditure by methods which are not destructive of the sources of this revenue.

This is really to say no more than that a national community, like an individual, cannot, unless it has resources of its own or of others to draw upon, have an expenditure in excess of its current income. If such resources are available, they may be turned into current income with the possibility, in the first case, that the sources of present income will be depleted, and, in the second case, that future income will be mortgaged. Leaving aside such resources, it is, however, evident that if, for any reason, the current income of a community does decline, it must either lower the scale of its expenditure or discover other means of acquiring an income equal to the old means. But, in a community whose system of economic organisation is similar to our own, this leads to an important consideration. While in a real sense the community is one, its income is composed of the aggregate of the incomes of individuals, each income accruing from the employment in which each individual engages himself and his capital. While the community may possess and exercise the right to lay down the general conditions under which individuals may engage themselves and their capital in employments, and also the right to demand from these individuals that proportion of their income which it sees fit in order to meet what are regarded as community requirements, it cannot, with very few exceptions, guarantee that any particular employment will continue to yield any given amount of income. In an economic system in which specialisation is the dominant principle, and in which no particular employment is compulsory, on the one hand, this income depends on the individuals immediately concerned, but, on the other hand, it depends on the whole complex of interrelated supplies and

demands which in their ramifications extend to every part of a system which at the present day comprehends the whole world. Under these conditions no national community which forms a part of the system can determine what the amount of its income shall be ; that depends on the aggregate of the incomes of its individual members ; the primary concern of the community is so to control its public expenditure that, by non-destructive methods of raising revenue, a balance with that proportion of the income which can be obtained as public revenue is maintained. So long as this balance is maintained the community has at least one essential condition of economic health.

But even though this condition is present, the situation of a community in which abnormal unemployment is increasing, with consequent loss of potential income, cannot be regarded as other than serious. The startling increase in the United Kingdom in 1930-31 is, of course, one aspect of the present dislocation of the world's economic mechanism, involving a stoppage of a large part of this mechanism, by which every country, in greater or lesser degree, is affected. Such a dislocation is not a new phenomenon ; that it cannot be explained by some simple obvious cause, and that it cannot be easily and quickly remedied, require no emphasis at the present day. On the other hand, the manifestation of the dislocation is apparent to all. It is seen in a huge lack of coincidence between the actual and potential supplies of masses of commodities and services and the effective demands for them. On the supply side, evidence of the lack of coincidence is that these commodities and services cannot be disposed of at profitable prices, and this fact is naturally regarded by producers as the cause of the dislocation. And, of course, to the producers it is the cause, in the sense that could they have continued to dispose of their output of commodities and services at profitable prices, they would have continued to produce them. Instead, the dislocation is invariably accompanied by a fall of prices, which is widely attributed to an imperfect operation of monetary factors, though it has yet to be convincingly shown that the operation of these factors must be the primary cause, and the fall of prices more than a manifestation of the dislocation. In an economic system in which monetary factors did not exist,

there could be no absolute guarantee, without a rigid regulation of the demand for commodities and services in relation to the supply of them, that widespread dislocation would not ensue. This is not to suggest that, in the economic system as it exists, the operation of monetary factors is of small importance, or to minimise the need for the adequate control of these factors ; it is rather to emphasise that a concentration on the operation of monetary factors as the all-dominant cause of the dislocation is likely to lessen, rather than enlarge, the sense of responsibility of those upon whose actions the output of commodities and services depends.

To whatever causes the fall of prices which accompanies the dislocation may be attributed, the fact remains that the prices which obtain are the prices which those who demand commodities and services are prepared to pay for the quantity they buy, and evidently, at these prices, they do not, and maybe at lower prices would not, demand the commodities and services at the rate at which they have been produced. Whether, if the factors of production had been distributed differently, so that less of some commodities and services had been produced and more of others—maybe some produced which have not been produced at all—there would have been a continued coincidence of supply and demand at profitable prices is a question of which the answer would go far to determine the ultimate causes of the dislocation. Unfortunately the question cannot receive a practical answer, but that the question can be suggested is sufficient to emphasise the necessity for extreme caution as to how the factors of production should be distributed in the future. Seeing that dislocation has ensued on the previous distribution, it is evident that its exact repetition can only be justified on the assumption that conditions of demand in relation to potential supply will have undergone appropriate changes.

That there is always a strong tendency for this assumption to be disregarded, and for those who determine the distribution of the factors of production to continue the previous distribution must be recognised. Not to mention that they are accustomed to this distribution and, consequently, are reluctant to depart from it, there is the supremely important reason that modern economic organisation requires that the

factors of production, especially capital factors, shall assume highly crystallised long-lived forms. The tendency is for a larger and larger part of the act of production to take place in the past, and for the final process of production to become a smaller part—something which doubtless helps to explain why the production of earlier products continues even when demand prices are far from covering complete costs, and also the long continued disparity between the fall of prices in the earlier and final stages of production. Attention was drawn to this disparity in the *Report of the Royal Commission on Depression of Trade and Industry* in 1886, and hints given of the causes which, during the intervening period, have been accentuated.

In the present connection it is sufficient to mention the bearing of the character of modern economic organisation on the reluctance to depart from a given distribution of the factors of production, seeing that a departure will almost certainly involve a temporary loss, maybe a permanent loss, to those immediately concerned. Although the primary aim of combinations of capital in their various forms, and of associations of labour, may be that of securing what the members regard as an adequate return for their services, experience goes to show that another aim is that of seeking to control the forces that make for changes in the distribution of the factors of production so that they may be protected against consequent losses. Generally, it is this easily understood reluctance to change which explains the tenacious holding-on policy during a prolonged period of dislocation in the hope of a recovery. Even if the policy appears to be justified in that the hope is ultimately realised, the repeated dislocations, with the consequent slowing-down of the economic mechanism, remain as evidence that the factors of production have not been distributed among various uses as appropriately as conceivably they might have been.

Whether the present dislocation can be regarded as simply a repetition of previous dislocations, from which recovery in a reasonably short time may be expected, is a question which does not admit of a confident answer. In the first place, even if the immediate causes of the dislocation are economic, at least some of them are not primary causes, but are the effects of political causes. From the political side

the economic system is being required to cope with the problem of the payment of war-debts and reparations. Under ordinary conditions trade between nations is pre-eminently a coincident exchange of commodities and services with such borrowing and lending as is voluntarily entered into. The payment of war-debts and reparations involves a compulsory one-sided transfer of the productions of certain countries to others, to the extent that will yield the requisite means of payment. The problem of the transfers has not yet been solved, indeed only to a limited extent have the transfers been made. Instead, the situation has been periodically met by the device of creditor countries lending to debtor countries a large part of the funds whereby the payment of war-debts and reparations has been ostensibly effected. The outcome of the conditions has been a repetition of crises, repeated strain on the exchanges, uncertain conditions of trading, and a general lack of confidence in the future, all of which is reflected in an inhibition of enterprise and long-term investment. That the economic system is constantly striving to adapt itself to the situation is apparent in the feeble movements which appear whenever a short breathing space is given, only to be stifled before they can acquire permanent strength. An essential condition of the smooth working of the economic system is a fair measure of stability, with some prospect of its continuance, and until the problem of the payment of war-debts and reparations is satisfactorily dealt with, either by cancellation, or by time being allowed for such payments as can be made to fit in with the ordinary working of the world's economic mechanism, any large recovery from the present dislocation will almost certainly be hampered and delayed.

In the second place, account must be taken of the enormous development of world production in recent years, so great that, as regards foodstuffs and raw materials and many branches of manufacture, it has been largely in excess of the growth of the world's population. In respect of this development of production, and also of the fall of prices, the present time has similarities to the long period of depression which the world experienced in the 'seventies and 'eighties of last century which, in this country, led to the appointment of the Royal Commission referred to above. Certainly there is no cause which has been adduced of the present situation

which was not set forth in the evidence presented to the Commission as a cause of the earlier situation. As may now be seen, while no doubt many of the causes were relevant to the particular circumstances of those presenting the evidence, they were quite inadequate to account for the prolonged world depression. Just as at present the large fundamental cause was found by some in the fall of prices due to imperfections of the monetary system; but the greater body of opinion, recognising the advantages of a common monetary system based upon a single standard, attributed this fall mainly to the large developments of production that were proceeding, and further, recognised that the requirements of stability involved that producers must adapt themselves to a lower level of prices, which is, in fact, what happened.

An outstanding feature of the increase of world production in recent years is that it has been accompanied by striking developments in industrial technique, which have resulted in a greatly enlarged capacity for production, and it may well be that, in some directions, as in the earlier period, the potential output now exceeds effective demand. If such is the case, a speedy recovery from the present dislocation cannot be confidently expected, for it will probably require a prolonged process of readjustment to bring supplies into appropriate relations with effective demands. This can be said, however, that if the process is necessary, though it may be resisted by obstacles ranging from the inertia of individuals to barriers erected with the authority of States, it will go on, and those countries with the largest degree of adaptability in their various factors of production, in their industries, and in their economic structure as a whole, will be best equipped for coping with it.

The position of the United Kingdom in the midst of the present dislocation of the world's economic mechanism is peculiar. The peculiarity lies in the fact that, whereas in the world in general, industrial depression has appeared with the dislocation, in the United Kingdom the dislocation has intensified a depression which already existed. As already stated, in the years preceding 1929 there was abnormal unemployment in the United Kingdom, although, during these years, the production and trade of the world were

expanding beyond pre-war limits at a rate which exceeded the rate of growth of the world's population. Whereas, in 1913, the United Kingdom claimed 14 per cent. of the total exports of the world, in 1928 her share had fallen to 11 per cent., a decline which has centred in her world-market industries producing coal, ships, iron and steel and their manufactures, and textiles. Consequently it is in these industries, and in those subsidiary to them, that unemployment has been and is now most abnormal. If and when there is recovery from the present dislocation, it is reasonable to expect that the numbers of unemployed in these industries, in common with other industries, will be reduced ; but even the most optimistic can hardly expect that the numbers will be reduced to what used to be regarded as normal figures. The significant fact of the post-war years for the United Kingdom is that demands which were previously met by the large export industries of this country have, in these years, been met by other sources of supply either home or foreign.

What this position means to the United Kingdom may be best seen by a glance backwards. During the century preceding the outbreak of war the country had come to possess an industrial structure such as could only exist in a world economy. In the early nineteenth century the position of the United Kingdom enabled her to draw upon the resources of the world to her large comparative advantage, and to build up industries capable of supplying not only the home market, but also a large part of the world's markets, while other of her industries necessarily remained smaller than the home market could have supported. In the exchange of products and services the country made large gains, and was thus able to attain an average income and potential standards of living probably higher than had ever been attained by any other large community, and certainly higher than could have been attained for the size of her population had the country been confined to her own resources. Before the war, with developments in other countries, it is probable that the comparative advantage which this country once possessed was tending to become smaller ; indeed, it is not improbable that the tendency had been operating since the last decade of the nineteenth century. This is not to suggest that advance had ceased, but that other countries were making up leeway.

That this country could, as other countries developed, continue to expand her world-market industries and retain her former position was, perhaps, hardly to be expected, and it is not impossible that, under the best conditions, some of these industries were destined to suffer some decline. That the war-years gave the opportunity for this tendency to operate strongly, and that it has continued to operate since, is now beyond question. Moreover, in one important case—coal—the tendency has been supplemented by more economical methods of consumption and a larger utilisation of substitutes. It seems evident, therefore, that the natural development of other countries, with the consequent growth of industries competitive with the export industries of the United Kingdom, made more emphatic by foreign tariffs, imposed whether for the purpose of protection, or as a means of raising revenue, form at least a partial explanation of the industrial position in the United Kingdom during post-war years. On the assumption that the changes which have taken place in world trade are permanent, the meaning for the United Kingdom is either that her industrial structure must be adjusted to a smaller share in this trade, or that the ground which has been lost must be regained, not necessarily in exactly the same directions in which it has been lost, but, if not, in some other directions.

Here, however, the fact cannot be ignored that the loss of trade which has been experienced is by no means solely due to the growth of industries within the countries which constitute the external markets of the United Kingdom. In 1929 the external trade of the world was some 25 per cent. greater than before the war, whilst that of the United Kingdom was about 13 per cent. less. Apparently this trade must have been shared by competing countries which have had to face the same external obstacles as the United Kingdom has had to face. This would suggest that the industries of these countries were either already better adapted to the conditions of post-war trade, or that their power of adaptability to these conditions has been greater than that of the industries of the United Kingdom. Maybe both these considerations are true, but, in view of the facts, it is difficult to resist the conclusion that the latter has been dominant. Among the practical lessons which economic theory teaches there is

none which is more strongly emphasised than that the essential requisite of an appropriate industrial structure, and of the factors of production comprised within it, is a large measure of adaptability to the ever-changing conditions of interrelated supplies and demands. In plain language what this means, as regards the factors comprised within the industrial structure of any community, is that the supplies of commodities and services forthcoming from their activities must be maintained in appropriate relations with the demands for these commodities and services. If any particular demand declines, maybe because it is being more appropriately met elsewhere, the demand may possibly be retained by its being met still more appropriately. If this proves to be impracticable, then the factors of production responsible for that supply will be unemployed in that direction at any rate, and must continue unemployed until they are brought into appropriate relations either with other existent demands, or with latent demands which await the creation of supplies from new branches of enterprise to call them forth.

Obviously if such a situation does arise in a community it will almost certainly have harsh consequences upon the human factors of production who lack adequate resources to meet the situation. Even so, it must be recognised that, in a social and economic system whose basis is freedom of enterprise, there can be no guarantee that the situation will not arise, and it must be further recognised that the only real remedy is that of a process of readjustment to the situation. It was to reduce the harshness of these consequences that the State system of insurance against unemployment was brought into operation in the United Kingdom in 1912, and that it has been of immense service in enabling the present problem of prolonged abnormal unemployment to be systematically coped with cannot be questioned. At the same time, it can hardly be doubted that the scheme—as it has come to exist—has operated as an obstacle to an economic readjustment which has been urgently required, firstly, by lessening the incentive to enter new employments, and reducing the scope for their creation ; secondly, by assisting in the maintenance of rates of remuneration in existing occupations higher than the economic situation has warranted ; and thirdly, by strengthening the resistance of organised labour to changes in industrial

organisation unless accompanied by conditions which threatened unduly to limit the effect of the changes. But the obstacles to readjustment are by no means confined to one side. Mention has already been made of the reluctance to change due to the probability of losses on masses of highly crystallised long-lived capital, and to this large obstacle should be added the policy of attempting to maintain prices, often by the device of restricting output, which are out of harmony with prices in other industries, and which, with the restriction of output, may react seriously upon these industries. Evidently this policy is most likely to be successful where anything in the nature of a monopolistic combination exists, but, in other cases, the practice of obtaining a large part of the capital required on terms of fixed rates of interest must be a strong impulse to the adoption of the policy in a time of stress. Whatever may be the advantages of the practice in the way of obtaining larger supplies of capital at comparatively low rates, there can be little doubt that, at such a time it must tend to hinder readjustment. Moreover, the argument that, when depression appears, with consequent reductions of remuneration, these reductions should be shared by all the capital involved, is not without substantial basis in an economic system in which it is claimed that capital is the chief risk-bearer. The bearing of this consideration on the problem of readjustment, when the relative positions of capital and labour are in question, requires no emphasis.

During the years of industrial depression in the United Kingdom many explanations of the situation, and many remedies for it, have been set forth, among which monetary explanations and remedies have occupied a prominent place. Whether, as is frequently implied, if there had been no deflation consequent upon the return to the gold standard, the situation would have been better in 1931, is a question which cannot certainly be answered in the affimative. If the industrial structure of a community and the factors of production comprised within it are rigid compared with those of competing communities, it is difficult to see how the former community could, by monetary means, which presumably are open to all, permanently overcome its comparative disadvantage. Whatever the difficulties to be overcome, and the sacrifices to be incurred, the one safe and

sure way for the United Kingdom to regain economic health is for the community to bring its supplies of commodities and services into appropriate relations with the demands for them at the level of prices which a carefully regulated monetary system, avoiding the dangers of inflation—that most deceptive and destructive of all economic poisons—will yield.

Finally, it should be noticed that there is evidence that economic readjustment is proceeding in the United Kingdom, some of which, along with evidence that there is considerable scope for such readjustment, may be found in the tables presented to the Macmillan Committee by the staff of the Economic Advisory Council. Moreover, it may not be without significance that, when the abnormal unemployment which already existed in the United Kingdom before 1929 is allowed for, the world dislocation appears to have affected her less seriously than some other countries. Is it possible that eventually it will be seen that, in recent years, production has forged ahead in some directions beyond profitable limits, and that the comparative slowness in the United Kingdom has not been an expression of apathy but of a caution which has had justification ? In the midst of the present dislocation, is it utterly unreasonable to suggest that, given the requisite determination, the United Kingdom may be in a more favourable position than is often realised, to adapt her industrial structure and factors of production to conditions perhaps more stable than have prevailed in post-war years ?

In any case, one fact which cannot be gainsaid is that the world is not at present suffering from lack of capacity to produce the material things of life. Rather, it is apparent that, if the present dislocation can be surmounted and replaced by more stable conditions, there is capacity which, within measurable time, would yield to the world higher material standards of living than have ever been attained in the past. Although there is much that is disturbing in the post-war position of the United Kingdom it is hard to believe that she has permanently lost the possession of this capacity.

G. W. Daniels.

THE ECONOMIC SIGNIFICANCE OF "GOLD MALDISTRIBUTION"

I

It happens very frequently that a state or condition prominently associated with a situation regarded as undesirable is taken as the starting point of comment and discussion, without reference to the question whether, in fact, the state or condition referred to is in reality the initiating factor in the situation. The task of science in such a case is a twofold one: to examine whether the condition referred to is, in fact, the cause of any subsequent chain of events, and, further, given that the state or condition does initiate further consequences, whether it is not, in itself, a consequence of more remote causes. The difference involved in these two inquiries may be illustrated by, *e.g.*, the case of medical research. It is possible to pursue inquiries into the best methods of *curing* cancer, or it is possible to investigate the *causation* of cancer; if a disease can be prevented, this avoids the necessity of seeking for cures. Again, unemployment does, in itself, create further undesirable consequences, but if unemployment can be prevented there is no need to investigate alternative methods of relieving the unemployed. Applying these analogies to the present case, it becomes important to ask, not only whether gold "maldistribution" is a state or condition in the economic world capable of causing a chain of unfavourable consequences, but also whether gold maldistribution is, in itself, a consequence, in which case the problem of prevention must be treated from an altogether wider point of view.

II

The use of the term "maldistribution" implies that, if the direction in which gold moved were different from what it actually is, and if the gold stocks of the world were thus differently distributed from what they actually are, the net world economic situation would be improved. But

this improvement in the situation might come about either because the causes leading to the actual distribution have bad effects (of which the gold movements actually taking place, with all their supposed consequences, are part), and maldistribution ceases because these causes are prevented from operating in future, or because the gold movements themselves produce undesirable results, so that, if in any way the gold movements can be brought to an end, the undesirable results will cease directly. Current confusion on the subject of gold distribution is partly due to the fact that economists and practical men will not necessarily be in agreement as to the criteria by which desirable are to be distinguished from undesirable gold redistributions. But it is also due in part to the neglect by economic theory of the element of arbitrariness in any *de facto* scheme of distribution ; and, lastly, to a failure on the part of practical men always to realise that, whilst there are arbitrary elements in gold distribution, there are also inevitable chains of sequences which make it impossible for the economist to accept the view that operating on the gold stock or the gold flow directly, will be a cure for the situation in all cases.

III

The first great generalisation on the subject of the distribution of the precious metals was Ricardo's : " Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter."[1] As is well known, Ricardo denied in the same chapter on " Foreign Trade" from which this extract is taken, that the value of gold must everywhere be the same ; but that particular point is unimportant in this connection. What is relevant is that gold-flows, under the circumstances envisaged by Ricardo, are always effects and not causes. The same remark necessarily applies to the position taken up in the correspondence with Malthus and in the later editions of the *Reply to Mr. Bosanquet.* Gold is only exported

[1] *Principles*, in McCulloch's Edn. of the *Works*, pp. 77-8.

when it is the cheapest commodity: an export of gold is a proof that the currency is redundant: in a word, bullion exports are a cause, not the effect, of an unfavourable balance of payments, and even the failure of a harvest or the necessity of paying a subsidy to a foreign power are not, in the Ricardian view, direct causes of a drain of bullion, since those goods will always be sent in discharge of such indebtedness as are cheapest in the exporting area and dearest in the importing area, and bullion is not necessarily the cheapest commodity to send. As Professor Viner has shown, the Ricardian position that bullion exports are the cause, and not the effect, of an unfavourable balance of payments has not been the dominant tradition in English political economy. But whether one sides with Ricardo or John Mill on this particular issue, it must not be overlooked that there is a fundamental unity of idea behind both points of view; in both of them gold-flows are a response to the necessities of a price-change. According to the dominant view, a shift in the balance of payments necessitates an alteration in relative price-levels, and bullion will move until relative prices in the paying and the recipient areas are such, respectively, as to enable the new excess of payments over receipts to be met by movements of goods. The Ricardian view is that unless goods are cheaper as a means of remittance than bullion, bullion will flow and that very fact will make the balance "unfavourable." But in both cases bullion exports are an effect of causes more organically bound up with the economic situation as a whole. Maldistribution would result, not from allowing the bullion to move, but from attempts to prevent it from moving. It is true that, as bullion moves, "bank rate" is raised, but the legitimate defence for that action is not that it attracts short money and, therefore, delays the adjustment of prices, but that it *both* attracts short-term money *and* forces on a readjustment of prices. The failure of bank-rate changes to bring about such results in the recent past, as well as the coincident failure of gold imports to raise prices in consequence of "gold sterilisation," are points which will require separate consideration later on.

IV

Two further results follow from the general classical view: Countries cannot possess a gold stock *larger* than

they are entitled to, nor can a country ever be *forced off* a metallic standard if it desires to adhere to it. For successive additions to the gold stocks of a country cause, directly and indirectly, a rise of prices, and gold losses similarly cause price reductions. The price rises in the first case and the price reductions in the second, will reverse the tidal movement of the precious metal ; in the end no movements of gold will take place at all. From the standpoint of strict monetary theory, the right distribution of gold is achieved whenever the price situation in all countries connected together by international trade is such that they settle their outstanding international balances of payment without gold movements. Gold movements which ultimately lead to this result *correct* maldistributions ; gold movements which would have the effect of delaying this result *cause* maldistributions. But it is difficult to see how classical monetary theory could have ever found room in its analysis for the possibility of movements of this second kind. The international movement of the precious metals tended towards equilibrium ; the " self-liquidating character of drains " was the classical answer to the apprehensions of the mercantilists.

V

The first approach to modern doubts on this subject will be found, I think, in Fullarton's denial of the contentions of the Currency School that drains of bullion were self-liquidating. The theory that bullion exports diminished the circulating medium of a country and *therefore* reduced prices was inconsistent, he urged, with the existence of " hoards "—*i.e.*, of Central Bank reserves, as we would put it to-day. And this point brings us to the first of the possible ways in which the assumptions of the classical school may be negatived in practice ; bullion shipments may be " offset " by credit expansion. If the position of a country's price level or of its balance of payments is such that gold or bullion exports are necessary, then to offset gold exports by further credit creation is tantamount to neutralising the effect of such gold exports so far as the domestic position is concerned, and increases the risk that further gold shipments will become necessary in the future. And, if, in the importing country, gold is *also* offset by restriction in the volume of other forms

of purchasing power, a second departure from the assumptions of classical doctrine takes place. For prices will not fall in the area whence the gold came, nor will they rise in the areas to which the gold flows. The aggregate volume of gold flowing may, therefore, be much greater than it needed to have been in order to restore the conditions appropriate to "natural traffic" had different canons of bank policy obtained in the areas under consideration. The *de facto* distribution resulting from the simultaneous adoption of these policies may be described as a "maldistribution" of gold in the sense that the economic necessities requiring *some* gold movement could have been fully satisfied with a smaller *net* movement if the policies pursued in both areas had been different. The gold movements taking place are effects, and not causes, but among the causes which dominate the quantitative aspect are some which are arbitrary in the sense that they are *directly* modifiable by human will. The classical tradition tacitly assumed that each country participating in the international monetary system possessed a "normal" gold stock which, as it never changed, could be neglected, whilst increases in that stock led to an expansion of purchasing power and, therefore, to a rise of prices, decreases to a contraction of purchasing power and, therefore, to a fall in prices. If *all* countries pursued this policy, any increases in the supply of the precious metals coming from the mines would ultimately be distributed among them all in proportion to the previous sizes of their gold stocks, and no disturbance would result to the self-balancing nature of the system on this ground.

VI

It cannot, therefore, be denied that the economic world has been somewhat slow in appreciating the full consequences of the policy of gold sterilisation which, when it was first discussed in its relation to Federal Reserve Policy, met with a great deal of praise. For sterilisation undoubtedly enables a country for the time being to "contract out" of the consequences of gold imports, just as "offsetting" gold exports by credit expansion enables a country to evade the consequences, for the time being, of maintaining a price-level too high in relation to that of other countries. But, whilst this possibility is important from the standpoint of inquiries

relating to the limits of autonomous monetary policies under a gold standard, it is still more important from the standpoint of the conditions appropriate to the fruitful functioning of the gold standard internationally. The fact is that economic theory has been more concerned with the *relative* movement of prices than with the *absolute* level of prices, and has tended to overlook the fact that when a single country hoards, or a group of countries are hoarding gold for the time being, the effect is to *delay* the attainment of international equilibrium. For, instead of prices rising in the gold-importing area, they remain stationary for the time being, and in those countries from which the gold came a proportionately greater pressure has to be exerted on local prices to produce parity. Thus, if at a time when the general economic conditions necessitate gold exports and imports, the importing countries decide to modify (in the sense of raising) their reserve requirements, this modification of reserve policy involves that international equilibrium will be attained at a lower level of world prices than would have been necessary if no such modification had taken place, *unless*, at the time when the gold-importing countries are modifying their reserve requirements in an upward direction, gold-exporting countries modify their reserve requirements in the opposite—*i.e.*, in a downward direction.

VII

It appears at first sight as if the conclusions stated in the previous paragraph were inconsistent with those reached in paragraph 5, but this is not the case. In paragraph 5 it was urged that gold sterilisation in one area accompanied by offsetting gold exports in another area, at a time when the international equilibrium is disturbed, involves a *larger aggregate volume of gold movement* in order to restore equilibrium, than would have been required if gold imports had been allowed to raise the one price level and to lower the other. In the next section it is argued that a reduction in gold-reserve requirements in the gold-exporting areas at a time of disequilibrium *and* of gold sterilisation in the gold importing area enables equilibrium to be restored with a *smaller absolute fall in the price level* (though *not* with a smaller absolute amount of gold loss) than would have taken place if reserve requirements in the gold-exporting areas had not been reduced.

Up to a point, therefore, a choice can be made between greater losses of gold and greater strain on the price level. The limit comes when the policy of offsetting gold exports—*i.e.*, allowing gold reserves to fall—is carried so far that the entire gold losses are compensated, for then equilibrium will not be attained at all. To bring the loss of gold to an end, prices must fall in the gold-exporting area, relatively to prices in the gold-importing area. There must be a shift in *relative* prices, but this shift can take place at different absolute levels of the associated prices.

VIII

This possibility of a choice between restoring equilibrium through larger aggregate gold movements, or by means of greater relative and absolute price changes, provides the key to much practical controversy. The choice is obviously easiest to make where reserve ratios are high at the moment when the gold drain begins, and where, also, the remuneration paid to the factors of production is elastic ; it is most difficult where the opposite conditions prevail together. The traditional British policy has been to reduce the gold flow to a minimum —a policy which rested upon the two circumstances : that the gold stock was small relatively to the liabilities secured by that stock, whilst the remuneration paid to the factors of production was capable of alteration. But the choice is made more difficult to-day by the existence of several new factors in the situation.

IX

Owing to the rigidity of the cost and price structure, bank-rate changes are unable to initiate, as easily as in pre-war days, a chain of events which ultimately leads to a fall in the level of costs, incomes, and prices. On the other hand, a rise in bank rate easily initiates an inflow of foreign balances. From the standpoint of the Money Market, such an inflow has the effect for the time being of postponing the necessity of fundamental readjustments of the cost and price structure ; it prevents a gold redistribution which might otherwise have been necessary. But it does so at a price : a withdrawal of balances accentuates the drain of gold, when this becomes necessary for any reason, and, by doing so, introduces psychological elements. For the drain of gold

in its turn leads to doubts as to the safety of the balances, and thus causes a further drain. An extremely paradoxical result follows: the instrument which normally reduces the drain below what it might otherwise be, is the cause of an accentuated drain when gold movements have begun, for any reason, to assume proportions which upset "confidence." In order to prevent gold from moving, foreign balances are encouraged to flow in; but once foreign balances are held it becomes more than ever necessary to prevent gold from moving, for if it does, the balances will move, and with them, a more than proportionate amount of gold will move also

X

These phenomena, it may be argued, are aspects of the pathology of the gold standard, rather than manifestations of its normal working. The fact is that the normal working of the gold standard assumes a certain elasticity of the factors of production and their remuneration; if this elasticity is not present, it produces an altogether novel state of affairs, with which the established economic doctrine, which assumes elasticity, is unable to cope. Given elasticity, it becomes possible to use foreign balances as a temporary method of adjusting the balance of payments, because, under these conditions, it would also be possible to use other methods of adjustment. Given inelasticity, it is possible to use foreign balances as a method of adjustment, but the very causes which force reliance upon this method are also the causes which make it dangerous, since the ebb and flow of balances are subject to irrational influences. For if a centre is a large holder of foreign balances the movement of gold to and fro ought normally to be larger in the long run (though not immediately) than if it held no such balances. But if this is not understood, such gold flows are themselves a cause of still further gold flows, as soon as they attain a magnitude greater than international opinion will tolerate with equanimity.[1]

[1] The purely irrational character of such drains is revealed by the nature of the remedies applied to stop them. There is general agreement that if a loan is made to the gold-exporting country of very large dimensions, such a loan is hardly likely to be used. Further, the accumulation of gold resulting from such drains does not make for equilibrium and constitutes a clear case of "maldistribution." The use of extra-economic measures for stopping such a drain is, therefore, perfectly justifiable and causes no undesirable economic consequences.

XI

To sum up. From the economic standpoint every gold movement which does *not* tend to produce equilibrium (though not necessarily *identity*) of international prices results in what is, from that point of view, a maldistribution of gold ; but, equally, every device which *prevents* a gold flow which would otherwise tend to produce equilibrium of international prices results in a maldistribution of gold. The primary assumption underlying the concept of an international standard is that local conditions will prove adaptable to the working of the standard, and not that the standard will be adapted to the necessities of the local situation, for local necessities are not *necessarily* congruent with one another. From the practical standpoint the present position of the gold standard poses two problems : a more detailed investigation of the cases in which divergent local aims can be made congruent with the retention of the gold standard, and a search for methods and arrangements by which local aims, which are not only divergent from one another, but which paralyse the working of the international standard, can be eliminated. A study of maldistribution, in other words, leads directly to a study of those forces of international distrust and of national rigidity and inelasticity which threaten the continuance of the existing economic order in every one of its manifestations.

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HIGHER TAXATION OR HIGHER WAGES ?

On the ground that liquid capital resources, owing to their great mobility, are free to flow from a country to another where the return is larger, *i.e.*, where the price of other factors of production is lower, Mr. J. M. Keynes, in a recent essay[1] argues that, in a country in which the level of wages is higher than in other countries, capital resources will tend to flow away to the latter ; their price will consequently rise, increasing cost and price of domestic production. Real wages will, therefore, be reduced, and brought back to the previous level existing before the rise in money wages took place. On the other hand, unemployment arising from the difficult situation of industry will further cut down the income of the working classes.

This reformulation (on international grounds) of an "iron law of wages," brings Mr. Keynes to see merely two alternative policies for increasing the workers' welfare : the hindering of the flow of capital abroad, and the abandonment of high wages.

The first of these two policies is, of course, immediately to be discarded because of practical difficulties and diseconomies involved ; the other is conceived by Mr. Keynes as involving the displacement of the high wages system by a fiscal policy for providing the working classes with more social services and benefits than they are now enjoying. Mr. Keynes' arguments in favour of this solution may be summed up as follows : High wages either cause the breakdown of the enterprise (when it is impossible to free the invested capital resources, owing to their immobility) or result, in the long run, in merely nominal increases of the workers' rewards (when capital resources are free to move). Moreover, high wages are a burden falling upon a single class of producers, entrepreneurs or employers, leaving exempt the pure capitalists, the tradesmen, the wealthy non-industrial classes.

[1] "The Question of High Wages," The Political Quarterly. No. 1.

This, in the opinion of Mr. Keynes is undesirable, for, if high wages, apart from their economic effects, are deemed desirable as a social benefit, their cost ought to bear on the community as a whole, and not on one single class alone.

On the contrary (holds Mr. Keynes), additional income taxation would afford the double advantage of providing the amounts required to increase the incomes of wage-earners, leaving the productive power of the employers unhampered, or almost unhampered, and making all the wealthy classes contribute their share to the social welfare resulting by the establishment of high wages.

"We must not starve the goose that lays the golden eggs, before we have discovered how to replace her. We must take her eggs instead," says Mr. Keynes, and the above is, in his own opinion, the appropriate method. Therefore, he pleads for the abandonment of trade unionist methods of wage adjustment, in favour of an extension of social welfare expenditure, in its various forms, for the working classes.

To these views of the eminent economist, various objections may be opposed. Above all it is not true that income tax does not affect the cost of production, whereas high wages do. In a purely static view of the economic process, it is conceivable that an income tax levied on the results of wealth production might be regarded as not affecting the cost of production; but as we look upon the economic process as a continuous flow of interdependent phenomena (which is more in keeping with reality) the burden of income tax and of wages upon the employer will, at first approximation and apart from the subsequent effects on efficiency, be identical.

The only distinctive element between these two methods of attaining some social redistribution of the industrial output, is, then, their respective levels. Mr. Keynes notes, on this point, that an income tax, falling upon the recipients of a certain income over the minimum, would be less burdensome for employers—who represent but a fraction of the owners of the aggregate income—than high wage policy, bearing entirely upon them. But in exchange for this immediate advantage, are we not to be confronted with some more important evil? We must note, first, that wages go entirely to the benefit of the working class. Can we say the same for

taxation? It would be injudicious to suppose the fiscal machinery economical to such a degree as to be inexpensive at all. Surely some fraction of the amount of the tax must defray the expenses of collection. This fraction will thus represent an additional and by no means negligible cost of the presumed benefits of an authoritarian distribution of social income. Moreover, still assuming great mobility of capital, the portion of taxation falling upon the pure capitalists will stimulate the export of these resources, therefore making difficult the conditions of domestic industry as a whole. Industry will be compelled to pay dearer than before for resources, and will alone bear the tax that, falling now on a reduced number of taxpayers, must be levied at a higher rate if the total amount required for the maintenance of workers' incomes at the desired amount is to be secured. For the employers, the tax will clearly reach much the same figure as they would have paid in the form of higher wages, *plus* the fiscal expenses for collection and redistribution. We shall thus be confronted again by our original dilemma: employers being compelled either to close their factories on account of the impossibility of bearing the tax burden, or to dispose of their plants, investing the proceeds elsewhere.

However, in choosing between income taxation and high wages, it is not enough to confine ourselves to this first approximation, which only takes into consideration the immediate effects of the two policies and pays no attention to their different *instrumental* nature.

By the high wage policy, wages being contractually discussed and agreed to, a selective influence is introduced, benefiting enterprises with better technical equipment—*i.e.*, those that succeed in neutralising a larger portion of the added labour cost through the improvement of plants, of productive processes, or of administrative and technical organisation. High wages are then not only a benefit to the workers, but also a strong incentive to the economic and social progress of the community. It must be remembered that, as long as wages remain at a low level, neither the systematic replacement of men by machines nor intensive rationalisation are deemed advantageous.

These views are confirmed by the industrial development of all modern countries, particularly of the U.S.A., where

technical progress has been far-reaching and the increase in wages rapid and considerable. High wages are a factor of low cost ; this principle, first stated by Frederic Taylor, and long deemed paradoxical, has been accepted by American manufacturers and proved true. In fact, this sequence has taken place : high wages, development of scientific management, reduction of the cost per unit of output, through an increase of output more than proportional to the increase of payrolls[2].

This process may be looked upon as a particular case of the transformation of unit costs into overhead costs—a general phenomenon, the importance of which, as a powerful factor in economic dynamics, has been clearly stated by Pantaleoni[3]. In fact, by rationalising, we replace labour (subdivisible down to the worker-unit, quickly variable according to the immediate industrial outlook, and therefore representing a unit cost) by machines (indivisible and irreversible tools), the cost of which per unit of output obtained decreases as the number of units produced increases.

As regards international competition, once the adaptation of national economy to high wages is accomplished by means of the above transformations—which will require a more or less considerable period of time—the country will be in a position at least equal to that held before. On this point, too, the argument of Mr. Keynes is too dependent on the classical, or static, view of economic activity. If the adoption of high wages may entail export of capital, we are

[2] It is difficult to say which of the two movements—development of scientific management of industry, and increase of wages—has been the cause and which the effect. In theory, the impulse can be given indifferently by either ; in practice they are interdependent ; historically, inasmuch as we can argue from American experience, it was the opposition of Trade Unions to the wage reductions by employers (during the industrial depression of 1921) that brought the *discovery* and then the hearty acceptance of high wage policy as a factor of prosperity (Cf. the studies of Profs. Dennison and Mitchell in *Recent Economic Changes*, vol. II, pp. 523-24, 866, 885). It is to be remarked, however, that as early as 1914 Henry Ford had adopted the principle of *living* wages, fixing a minimum of 5 dollars daily and stating that it was possible to pay high wages and to reduce costs and prices at the same time through a larger use of machines and mechanical processes, and to realise higher profits by selling larger quantities with a smaller profit per unit of output. (Cf. M. Jett Lauck's *The New Industrial Revolution and Wages*. A large number of documents and references on the origin and development of the high wages doctrine are to be found in this book.)

[3] " Di alcuni fenomeni di dinamica economica " in " *Scritti vari di economia*," 3rd series, p. 45.

by no means entitled to say that such a thing will necessarily take place and that all capitalists will take their liquid resources away from the country on account of the increased level of wages. Some will choose such a course ; others will prefer to neutralise high wages by bringing about technical improvements and taking other measures to rationalise production.

The question is mainly to assess the determination, foresight, courage, and optimism of employers ; all these are imponderable and unknown though vital elements in the solution of the problem. Let us take an example, again from American experience. Who would say that their competing position in the world market has become worse, or that American industries are not a good field for investment because of their high wages ? The reverse might have happened had those imponderable forces not existed, or had they acted in an opposite direction ; but we are by no means authorised to exclude them *a priori* from the discussion or to anticipate them as inefficient.

On the other hand what would be the effect of the redistribution among the workers of the receipts of taxation as proposed by Mr. Keynes ? Efficient or inefficient, all employers would be taxed in proportion to their profits ; they would feel no longer any incentive to alleviate this burden by means of productive improvements. Workers would, it is true, obtain increases of income, but costs not having been otherwise reduced, prices would, in short, rise to cover the burden of the tax. (First of all, those of primary commodities for which the demand is inelastic, and on which workers spend almost the whole of their income.) Thus the other condition of economic advancement connected with high wages policy—*i.e.*, the increasing of demand, without which it is impossible to develop mass production—would also fail.

The following conclusions are therefore suggested. The authoritarian redistribution of income as proposed by Mr. Keynes would then have the effect of increasing —through much fiscal friction—domestic prices, displacing the scale of comparative costs to the detriment of the country, and, therefore, contracting the *débouchés* of domestic production.

Contractually determined high wages act also as a

selective agency among the workers. Those who are more skilled, more industrious, more intelligent, will be better paid than those who are less. Industrial organisation will be improved by this selection, which would not be likely to take place to the same extent were a socialistic redistribution of income adopted.

By leaving contractual methods of wages adjustment in action, instead of resorting to taxation, workers escape from taking up the character of parasites, and employers that of benefactors. In other words, the development of a dependent and servile frame of mind, that could spread its harmful psychological and material influence in every direction, is avoided. In fact, a regression is impeded from an economic regimen on a functional basis, in which everybody tends to get the equivalent value for what he contributes, to one of concessions, privileges, and political favouritism, an advantage which is moral as well as economic, and no less important than the foregoing.

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NOTE:—When I wrote this essay, I had not read Mr. Rowe's book "Wages in Practice and Theory," though it was published as early as 1928. I am glad to see that my main views agree with those of this distinguished author, as to the *dynamic* conception of wages.

THE ABANDONMENT OF THE GOLD STANDARD.

I

THE five-year period ending 1929 was one of rapid progress in European industry and trade. We may say that the British unemployment problem during those years was evidence of localised depression, or rather, indicated a local maladjustment so great as to overshadow the tendency towards prosperity. That European prosperity should be fashioned anew after 1925 can be explained in terms of broad movements. The national suspicions that had their economic counterpart in prohibitions and restrictions of trading were being allayed; the revolution of technique in industry and agriculture was making unprecedented progress;[1] new channels of trade had been formed replacing the old that the war and the Peace Treaties had destroyed. And not only were the means of progress present, for conditions, also, upon which prosperity depends, were appropriate. Europe was returning to the gold standard, and the foreign exchanges, when stabilised, made trade more simple and less hazardous. Prices in general, too, pursued an even course, though British experience proved an exception. In France, wholesale prices which in the first quarter of 1925 had stood at 513, were 609 in June, 1929.[2] In Germany, during the same period, they had a slight fall from 142 to 134.9, and the experience of the Netherlands and of Italy was similar. In England, however, the STATIST index fell 20 per cent. The gold standard did not cause this prosperity, but the stable conditions of prices and exchanges —a direct result of stabilised monetary standards—permitted physical efficiency to be reflected in the welfare of European people.

II

This progress was not continued. No one reason can satisfactorily explain the depression, which has culminated in a European crisis, but there can be little doubt that the

[1] c.f. Jevons, THE MANCHESTER SCHOOL, Vol. II., No. 1, pp. 12-14.
[2] London and Cambridge Economic Service.

monetary mechanism has spread and intensified economic maladjustment. Apart from France, which stabilised the franc at a very conservative gold value, the general trend of European prices to the middle of 1929 was slightly downward —that of the U.S. remained almost constant, despite an inflow of gold.[1] With the cessation of American lending, together with the repatriation and inflow of credit during the Stock Exchange boom on Wall Street, a strain was placed upon European currencies, especially upon sterling, the over-valuation of which became apparent. European prices had necessarily to be forced downward, for, throughout 1930 and 1931 European currencies had to keep at the given gold value-ratio with the dollar. This fall in the level of European prices was accentuated by the obvious inability of American banking authorities to arrest the appreciation of the dollar in terms of goods, which in eighteen months was equal to a 20 per cent. fall in wholesale prices. The strain on the economic structure of Europe is indicated by the following indices of wholesale prices :—

	England.	France.	Germany.	Italy.	Netherlands.
June, 1929	81	609	134.9	510	141
December, 1930.	62.5	485	117.9	378	107

Prices in England which had been falling for five years and making impossible the profitable employment of a million men, tumbled disastrously during 1930-31, more than doubling the number of unemployed.

III

Depression in Great Britain under the gold standard was necessarily a dual malady. The first, the ultimate if not the immediate reason for our halting progress till 1929, was our failure to adapt ourselves to falling prices. Adaptability, in this connection, means the facility with which factors of production move from employment in one industry, producing goods which have either become unfashionable, or which are now produced more cheaply abroad, to another industry offering profitable employment. Adaptability is only evidenced if such unemployed factors are absorbed, partly in new industries, and partly, through the promotion of increased competitiveness, in old industries. But this adaptability was present only to a limited degree. Export

[1] c.f. Gregory, THE MANCHESTER SCHOOL, Vol. II., No. 2, *The Economic Significance of "Gold Maldistribution."*

industries were contracting because the costs of exports were too high ; new exports, such as artificial silk, expanded relatively slowly for the same reason. The prerequisite of adaptability is an ability to create new and expanding industries to absorb the unwanted factors of the old and decaying. The absence or the slow progress of expansion in a skilled industrial community during a quinquennium of extraordinary progress is in itself a guide to the reason for inadaptability. High costs and money incomes were losing us export trade and were preventing an expansion of production in other directions. Expansion to supply the needs of the home market was prevented because, with the level of money incomes then prevailing, foreigners had a comparative advantage in production, and the sheltered industries could not employ our redundant factors. Adaptability in this sense was, then, a function of the willingness to accept, not necessarily a lower standard of life, but a lower money income. This adaptability was virtually absent : deflation of selling price brought a praiseworthy reduction of costs, as it did in other countries, but it brought little reduction in money incomes.[1] Under the circumstances, the level of world gold prices was too low for sterling costs at the ruling gold value of the pound.

While this disharmony checked industrial and commercial progress in this country, it did not threaten the stability of our economic system, but it certainly weakened our ability to withstand the disastrous deflation which followed. Superimposed upon our local depression, evidenced by a lack of competitiveness in world markets, has come a general depression seriously curtailing the purchsing power of those markets. In so far as this second malady is general the remedy also must be general ; for our present purpose its importance lies in the fact that it has brought about conditions of crisis —*e.g.*, widespread repatriations of funds held abroad—which have made impossible the continued valuation of the pound at its previous gold level. No doubt it is true that industry, having borne half a decade of deflation, found itself less able than producers of other countries to respond to further pressure from the central bank, though it is doubtful if

[1] The London and Cambridge Wage Index, which stood at 100.5 in the first quarter of 1925, was 99.5 in June, 1929, falling to 97 in April, 1931.

purely economic, as distinct from psychological causes would have been sufficient to force us off the gold standard.

IV

The release of the Bank of England from its obligation to sell gold has led to a depreciation of sterling in terms of foreign currencies, and though it is evident that this depreciation is partly due to other than permanent causes—*e.g.*, a continuance of the withdrawal of funds from London and a desire to convert assets into currencies on a gold basis—yet it seems impossible to doubt that previously there existed an over-valuation of the pound. In so far as this over-valuation has disappeared, it has remedied that inadaptability which reflected itself in high gold costs, and in doing so it will mitigate the artificial disadvantage under which British producers were working. By reducing gold costs of production our competitiveness both in foreign and domestic markets will be enhanced. That this is a solution of what we had been forced to regard as a permanent problem is a matter for congratulation, but it is unfortunate that in helping to remedy the one malady we should have aggravated the other. The difficulties with which we have been brought face to face during the last eighteen months have been the direct result of world disorganisation—commercial, political, and monetary. The disorganisation of the sterling exchanges, or the creation of a situation which foreign distrust and apprehension regards as equivalent to disorganisation, together with a reduction in the gold value of sterling assets owned abroad, is likely to cause a further dislocation of commerce, and aggravate a European situation already bordering on crisis. There is, too, a further consideration of importance. During the summer the support that we were able to give to Austria and Germany, the economic situation of which is still palpably unstable both directly and indirectly through political consequences, was financially of vital importance and psychologically encouraging. The situation in these countries has been adversely affected by the strain which the departure from the gold standard has placed upon other European countries—France, the Netherlands, Sweden, and Switzerland—and the future is made less encouraging by the fact that further financial support from this country has been made less likely.

The uncertainty of the present is reflected in the Stock Exchanges and in the banking difficulties of Europe. In a word the danger is that European depression may become a European crisis, while certainly world recovery from the general malady cannot but have been delayed. On the other hand the recovery, when it does come, will find us more adaptable, and more ready, therefore, to participate in it with advantage.

V

Our action must deepen what we hope is a transient depression, and it may also tend towards more permanent and more serious troubles—a dislocation akin to that prevailing before 1925. Crisis inevitably brings apprehension concerning assets held in terms of foreign currencies. Such apprehension drove us off the gold standard by making impossible demands upon the gold reserve of the Bank of England. In so far as our action has increased distrust we have made it more probable that other communities will have to follow our example. The direct effects of sterling's devaluation may have the same result. Denmark appears to have removed its monetary standard from a gold basis partly in order to evade the increased difficulty of profitable exportation to this country, one of its most valuable markets. It may be that if considerable advantage accrues to our export trade that other countries, the markets of which have been captured, will also sever their monetary connection with gold. The danger of such action on the part, for example, of Germany and Japan, is likely to be directly proportionate to the immediate successes we register. And any considerable reduction in their exports by placing a strain on their banking systems will increase this danger. Necessity or choice may lead in the near future to further departures from the gold standard.

VI

The prosperity of 1925-1929 that succeeded the chaos and disorganisation of the immediate post-war years was built up, not, indeed, upon the gold standard, but upon the monetary stability which the gold standard provided. A relapse into conditions of monetary instability would not merely be a halt in the march of economic progress, for it would entail once more the establishment of European industry

upon a sound monetary basis. No doubt the gold standard is very imperfect ; it may be that ultimately some other monetary system will have to be substituted ; but a widespread abandonment of gold, without any other alternative basis available, would bring the possibility of economic disorder. Such a danger is always inherent in systems of fiat money, but in present circumstances the danger is very much increased. An unbalanced budget leading to State borrowing and an expansion of credit ; the possibility of cheap credit when bank rate is absolved from the necessity of holding monetary standards at fixed gold values ; the fear, engendered by earlier experience in Central Europe, that money not spent to-day will be valueless to-morrow, are all factors making inflation a not unlikely result of a free monetary system. The danger is mitigated in a crisis by the fact that cheap credit is unlikely to promote unhealthy expansion or speculation, but it is enhanced by the plethora of psychological factors which is likely to dominate economic conditions. Whether we are right in trusting our own banking system and in trusting Englishmen to manage sterling on a stable basis, and in distrusting other banking systems and nationals of other countries so to manage their currencies is a difficult question to answer. What can safely be concluded is that unbalanced budgets are too common, and the immediate and superficial advantages of devaluation too obvious to make the present position other than one of danger. So far, of European countries, Norway, Sweden, and Denmark have chosen to follow our example, and so far as can be seen at present, have equalled or exceeded our moderation. But it is not in the Scandinavian countries that the danger exists. Certainly, if the position does not become more menacing good may come of these departures from gold in that they call attention to what has been apparent for some time—the unsatisfactory nature of an international monetary system linked to gold and dominated by two countries, France and the U.S., using it in the main for their domestic welfare.

Inflation is likely, too, to rob this country of the advantage it has gained in reducing gold costs. During a period of inflation the tendency is for exports to be stimulated and imports discouraged. As internal prices rise rates of

exchange move against the community which is experiencing inflation, for did they not do so imports would be relatively cheap and would expand, while it would be more profitable for the exporter to sell at home and exports would contract. Once the exchanges move against the currency speculation and capital movements may force the exchange to such a level as to enable capital movements to be effected by increasing exportation. Under these circumstances exportation becomes increasingly profitable, so that prices in terms of foreign currencies can be reduced. If artificially stimulated competition of this kind were to occur in those countries whose products are of a similar nature to those produced by our export industries—*e.g.*, in Germany and Italy—then the immediate advantage accruing to us would be heavily discounted. The advantage, too, might disappear for a considerable period were inflation to be followed by restabilisation at an inordinately low gold value.

VII

Meanwhile, before these questions are answered, our domestic monetary policy needs managing with care. There are obvious reasons why sterling should not be re-tied to gold at the present time. To establish sterling at its recent gold level would emphasise again the inadaptability of our economic system ; it would be expensive, and might prove an impossible task—nor would it necessarily convince the world of the stability of sterling. To calculate the gold value to which our money incomes and our efficiency entitle us appears impossible while capital movements are so important an influence on the foreign exchange, and are moving in an opposite direction from what we may presume they will do under more normal circumstances. But a more important and even more uncertain factor has to be considered. The efficiency of the gold standard must depend upon the manner in which it is used, and, therefore, it follows that the monetary system of one country if based on gold can be beneficially or adversely affected by the actions of other countries on the gold standard.

VIII

The value of sterling must for a time be solely determined through management, and management would seem

to be offered as yet no simple guide. To set up as the aim of credit control a stabilisation of wholesale prices would be disastrous for two reasons. The wholesale price index is weighted heavily with raw materials and foodstuffs produced abroad, and sooner or later we shall see appreciable increases in the prices of these commodities—some gains have already been observed. To stabilise wholesale prices when the sterling prices of foreign produce must rise at wholesale is tantamount to deflation, especially as raw materials have to be bought out of the selling prices of home manufactures. And as sterling prices are likely, in a time of depression, to be too low relatively to sterling costs, an expansion of business will be attended and conditioned by a rise in prices. Prices may rise for two reasons, either because costs increase or because profits are greater. An increase in costs, resulting from an increase in the money incomes of factors of production, will bring about a depreciation in the value of sterling. And while an increase in profits may be necessary for an expansion of business, a prolonged or great increase in profits must tend to induce increased costs. The danger of both movements is ultimately the same—inflation. This is the internal instability resulting from the absence of a fixed valuation of the monetary unit.

JACK STAFFORD.

REVIEWS

Economic Fragments. By DENNIS H. ROBERTSON. (P. S. King, 1931. 10s. 6d.)

FOR anything which Mr. Robertson writes there is an assured welcome. One can always depend upon being stimulated by some sane acute thinking which never leaves the subject of discussion quite where it was before. The present volume consists of articles, essays, reviews, and papers, some written as far back as 1913-14, though most of them in the 'twenties, and one as recently as 1930. We thus get examples of Mr. Robertson's pre-war and post-war thought, and that both can be easily recognised as expressions of the same mind is at once a tribute to its strength and evidence of its development.

The contents of the volume are arranged in five groups. The fifth group includes two deliciously satirical dialogues which will be readily appreciated by those who can recall the atmosphere of 1913. The fourth group—the reviews—is now of particular interest: it brings before us what used to be described as the post-war problem of social and economic reconstruction, as seen by various writers, with Mr. Robertson's comments on what they saw and on their solutions of the problem. In the third group Mr. Robertson expresses his views on the proposals for family endowment, which the present writer will leave with the comment that he might have felt a little less impatient if the dates of the second and third articles of the group had been reversed, so that "A Word for the Devil" would have represented Mr. Robertson's second thoughts.

The first and second groups of articles constitute the most substantial portion of the volume. In making easily accessible the two narratives of the coal strikes, 1912 and 1926, Mr. Robertson has rendered a service not only to present-day readers but to future historians who will certainly thank him for having saved them many hours of toilsome research. The link which can be traced between

the three articles included in the first group is the idea of economic incentive. From the first and the second articles two extracts may be given: "To abandon the conception of absolute real cost, however great the complications into which it leads us, would be a retrograde step in the development of economic theory. To that conception we must resolutely adhere. . ." "The whole tendency of modern economic reasoning is to lay less stress on the effects of this or that action in stimulating or checking the *motives* for displaying this or that kind of activity and more stress on its effects in expanding or contracting the *sources* from which that activity emanates." Are these passages strictly consistent? Does not the first imply that the economist will be well advised to cling to a conception which more properly belongs to the province of the psychologist, and the second imply just the opposite? If this is a correct reading of the extracts it is, this time, gratifying to notice that the first appears in an article dated 1921, and the second in an article dated 1927. One more extract, not bearing exactly on the same point, but worthy of the closest attention at the present time, may be given from the third article of the group: "A completely rationalised world might turn out to be one which, if organised so as to obtain their *de facto* economic worth, a certain proportion of workpeople could find employment at very high wages, while the remainder could hardly find it on any terms at all." Is it possible that here we have an explanation of unemployment which effectually quashes any hope of the present extent of unemployment in this country returning to its pre-war dimensions in the near future? These extracts are merely samples of the stimulating thought which Mr. Robertson offers to his readers.

G. W. D.

The Federal Reserve System and the Control of Credit. By WALTER E. SPAHR. (Macmillan. 1931. 7s. 6d.)

THIS work attempts to deal with an extremely difficult subject in a simple manner. For the most part the author is concerned with American experience in answering the three fundamental questions which he rightly regards as the basis of the problem of credit control. First, he asks towards what

object credit should be controlled. Secondly, how it can be controlled; and thirdly, with what objects in view it has been controlled. But though the author gives the accepted answers to these questions, and deals only with more simple and fundamental matters, it must be said that in attempting simplicity he has assumed the knowledge of information that it would have improved the book to impart.

Britain and World Trade. By A. LOVEDAY. (Longmans, Green. 1931. 10s. 6d.)

IMPORTANT and far-reaching conclusions are impressed upon one by reading this series of valuable and carefully constructed essays. During the five-year period prior to the present slump Europe at last emerged from post-war disorganisation to achieve a rapidity of progress in production unparalleled and impossible to be sustained. Attention is called to the corresponding growth of international trade which took place coincidentally with the removal of import and export prohibitions and with the reorganisation of currencies. From these broad movements, developments in the world economy are, in Mr. Loveday's opinion, likely to result. The increased ability to produce wealth will stimulate a greater exchange of products, not only between agricultural and industrial communities but between countries of more equal economic development. Increased production leads, *ceteris paribus*, to increased specialisation. But whether the future will rob the qualifying clause of its significance seems to the reviewer a matter of some doubt.

The greater ability to produce and the greater freedom of sale, by increasing incomes without restricting the range of expenditure, must tend to increase very considerably the instability of demand. There are more ways of satisfying one's hunger with a guinea than with sixpence. That this is the fault of producers who want the guinea rather than of the guinea itself is a minor point on which one disagrees with the author. It cannot be denied that the tendency is for demand to become more whimsical and fluid, while supply is becoming less adaptable and crystallised. This is one of the roots of the difficulty of distributing the increased wealth that industry can produce. This difficulty is faced by Russia;

North America is facing it by attempting to mould demand to supply ; it is not being faced by Great Britain.

Quo vadimus ? asks Mr. Loveday. The answer in *Britain and World Trade*, the last general essay, is not reassuring The economic structure of Great Britain is accused, and it seems with justice, of aggravating the difficulties that it has to meet in common with those of all producing communities. " We are to-day standing still or but slowly crawling forward .... with an awkward rigidity in a world in which suppleness is becoming a constantly more imperative quality."[1] Statistics of trade lost and of expansion in foreign markets benefiting foreign competitors show that all trades suffer, though they suffer in different degrees and in different circumstances. The mosiac of lost trade, however dissimilar its different sections, traces one pattern—rigidity and high costs.

J. S.

Wall Street and Lombard Street. By FRANCIS W. HIRST. (The Macmillan Company. 1931. 8s. 6d.)

MR. HIRST'S subject, concisely indicated by his sub-title, is " The Stock Exchange Slump of 1929 and the Trade Depression of 1930." The extent to which circumstance has forced upon us realistic study is amply illustrated, though Mr. Hirst is at pains to find support for his views in well-laid principles of orthodox theory. In short, the thesis of the author is to establish a strong causal connection between the Wall Street collapse and the subsequent world depression, and to suggest measures for securing resuscitation. That Mr. Hirst has a lengthy experience of " the city," and that he was in New York at the time of the collapse, enabled him to draw on contemporary opinion there, and give an interpretation of events which is characteristically British. To readers on this side of the Atlantic this is of considerable value—the more so in light of events here since Mr. Hirst wrote.

Most valuable is the detailed chronicle of events during that fateful period October to December, 1929, and a sketch of the position twelve months later. That the stock market boom was extraordinary seems beyond doubt : extraordinary

[1] P. 149.

in that it arose from the wave of speculation which embraced every section of the community—speculation on margin, using to a large extent money raised too easily from the banks. This is illustrated by the author's apt quotation from Juvenal :

> Alea quando,
> Hos animos? Neque enim loculis comitantibus itur
> Ad casum tabulæ, posita sed luditur arca.

All the usual methods for keeping the position steady proved impotent—even a call-money rate of 20 per cent., a daily questionnaire to stock exchange members in order to restrict short selling, and a drastic curtailment of the stock exchange sessions. A fall in average stock prices from $83.06 on October 1st, 1929, to $42.43 on November 1st, 1930, is some measure of the débâcle.

In assessing the importance of its influence on world trade, some may take the view that it is here given too prominent a place. May it not be true that more vital and more long-standing conditions of trade would just as surely have brought us to the depths of depression? Replying to those who see as a major cause of depression the fall in gold prices, Mr. Hirst asks " why similar or worse conditions have prevailed in countries which have 'enjoyed' rising prices, thanks to a silver or paper currency." Does he suggest that the situations of groups of countries classified on this basis, bear of legitimate comparison?

In explaining the difficulties and suggesting remedies an important place is given to the influence of artificial restrictions on trade. It would be harsh to assume even from frequent examples of restriction crudely conceived and incompetently administered that no benefit can accrue from any form of restriction. The benefit or detriment depends clearly on the criterion, and from the world viewpoint few would gainsay the desirability of universal freedom of trade. But is that ever the criterion of those who impose restriction?

Minor points are the mixing of English and American spelling, and the statement on page 121 that with wholesale commodity prices at index 100 for 1913, and 101.9 for November, 1930, the purchasing power of gold in England at the latter date was only two per cent. *higher* than in 1913, when surely *lower* is meant.

S. G. R.

The Tables Turned. By JAMES BONAR. (Macmillan. 1931 7s. 6d.)

The Development of Economic Doctrine. By ALEXANDER GRAY. (Longmans, Green. 1931. 5s.)

THESE two books, though so entirely dissimilar in their object, their treatment, and their appeal, are yet both concerned with portraying economic thought of the past. To walk with Mr. Bonar through the Elysian fields, to be introduced to the heroes and gods of a students' Olympus, whom it must be confessed seem strangely human and so at times equally disappointing, is at once a pleasure and an adventure. Of all our walks, with Adam Smith, Malthus, Ricardo, and Stuart Mill, we enjoyed most the last, the while we forgot matters economic and talked with Mill of problems that can still puzzle us, and which a Mill might help us to solve. Now that we have conversed we feel we know the men, though they helped us little to understand their books, and we found, too, that like all men they would talk most of the times in which they lived most vividly. Some day, perhaps, Mr. Bonar will become a ferryman once more, and take us across the Styx to get the help of the past for the problems of the present. That would be an adventure ; but, perhaps, after it we should have a feeling of disappointment nearly as keen as that of pleasure we now have. Is it ungracious to say that the pleasure obtained from these conversations, like that obtained from all charming intercourse, is enshrined in the memory of grace and subtlety, and not in substance itself ?

Mr. Gray is concerned with a different task. The development that he traces is illustrated by unfolding and criticising the economic philosophy of the leading thinkers from the earlier Biblical poets to the Austrian school. The dangers of this method are obvious. Development is naturally a process of almost imperceptible addition to or subtraction from a previous state, and it is impossible to stress these alterations of shade without sketching in the background on which the new light is thrown. The danger of repetition is only occasionally felt to be imminent, but the reader may feel that the author is forcing himself to write brightly that the danger may be kept out of sight.

The author is always most lucid, orderly, and informative ; to the student he offers a safe guiding hand, while those to

whom he offers little that is really new will be grateful for the tidiness and accessibility of his work. One of the remarkable features of this excellent little book is its price. Messrs. Longmans, Green are to be congratulated on making less unbelievable the fall in the cost-of-living index.

J. S.

The Economic Life of Soviet Russia. By CALVIN B. HOOVER. (Macmillan. 1931. 12s. 6d.)

PROFESSOR HOOVER warns us in the preface that his figures are liable to considerable bias, and no doubt, generally, though a spectator sees most of the game he is fortunate if he sees all of it.

Probably the picture impressed most vividly upon the mind of the disinterested economist is the description of the industrial and commercial organisation. Centralisation of control and planning combined with decentralisation of administration appears to be carried to such limits that one can hardly fail to admire the logic and ruthlessness with which the system is applied. One cannot refrain from reflecting that this superficial simplicity of order might show, were closer examination possible, less admirable and more chaotic features. Indeed, Professor Hoover furnishes us with one example which is summarised in the slogan " The Five Year Plan in Four Years," for in endeavouring to make this true the careful plans of industrial progress are discarded for hastily improvised and patently impossible estimates. But it cannot be said that the author has provided much evidence to support this guess. We shall be grateful that the outlines of a new economy are admirably sketched, but unfortunately there is little of how it works.

It is true that production is shown to have increased considerably, and indeed wonderfully, though less wonderfully than is claimed. And the human suffering that economic progress and rapid industrialisation has entailed is well illustrated. " The benefits that will accrue to the Russian people during the next decade, even if the grandiose plans of the Party are realised, can hardly compensate for the years since the revolution when objective and subjective conditions of life have been comparable with the days of Ivan the Terrible or the Tartar raids." But little indication is given

of the reasons why plans have gone astray and how far production has been impeded, though we are told that the quality of output is poor and productivity at times disappointing. Knowing the ills of our own economic system we cannot believe that the Russian is nowhere vulnerable. But it is ungracious to criticise when so much has been achieved by the author in the face of so many difficulties and obstructions.

This economic experiment suggests a question that every society might hesitate to answer. Where is it all leading? Socialised production must imply controlled consumption, and while this will solve difficulties it must also create them. While no doubt the standard of Russian consumption than can satisfactorily be provided will not easily be reached, one feels that the future holds tremendous difficulties for the small body of men who have had the courage to assume the responsibility of moulding or dictating the tastes, the habits, and the lives of tens of millions of their fellow countrymen.

J. S.